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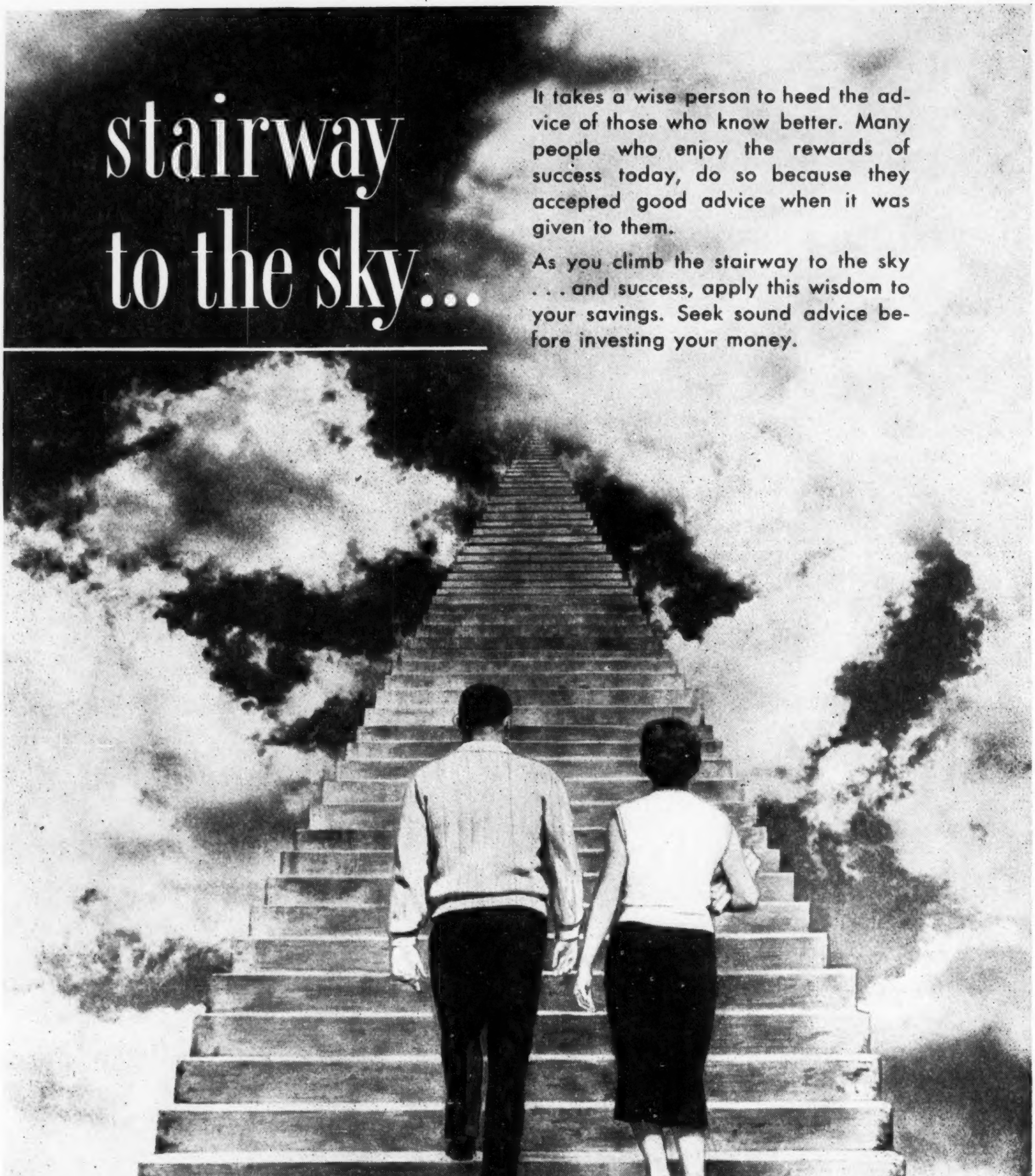
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THE
BUSINESS QUARTERLY

VOLUME XXV NUMBER 4 WINTER 1960

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Editorial: What Mr. Coyne said

In one of his most significant and controversial public statements, the Governor of the Bank of Canada recently gave his views on the problems facing Canada in the years to come, and prescribed some remedies for the ills which he believes beset our economy. In the interest of provoking thought and discussion of this important subject, the Quarterly presents an abridged version of Mr. Coyne's remarks.

We cannot expect to go on indefinitely buying goods and services from abroad in amounts greatly in excess of our exports, that is, buying on credit on a scale which requires large further increases in our foreign debt.

We must therefore face the prospect of suffering at some stage a major restriction in the supply of goods and services available for consumption and for expansion of capital facilities in Canada—or else we must set about providing for ourselves an amount of goods and services made in Canada through the employment of Canadians, in replacement of the supply from outside upon which we have been so heavily dependent for the past decade. The sooner we can make substantial progress in this direction, the stronger and more secure will be our economic future and national integrity. . .

The importance and urgency of dealing with the balance of payments problems are reinforced by the present situation of large-scale unemployment. "Living within our means" as a rule of life can be consistent with living better, because we can increase our means through the putting to use of presently available but unemployed resources . . .

The point I wish to make is that in order to live within our means, which will be forced upon us sooner or later whether we like it or not, it is not necessary to reduce our production or growth or restrict our standard of living. We can achieve our goal while increasing our total production and employment by altering the relative importance of the various production elements within the Canadian economy, that is to say, by facilitating a change in our economic structure . . .

In my view our present unemployment cannot be cured by the blunderbuss methods of over-all large-scale monetary expansion and deficit finance. The approach to the problem of unemployment needs measures which are specifically pin pointed or directed toward creating employment in Canada, and stimulating production in Canada, rather than merely handing out money indiscriminately for possible spending on further imports, or encouraging by unsound credit practices more and more people to go more and more deeply into debt . . .

The best way, I suggest, is to recognize openly the need for sharing the burden of the adjustments that have to be made, and the need for adhering to the method of pay-as-you-go to the maximum degree possible, in our fiscal and monetary arrangements no less than in our private lives and business arrangements.

Unless we can solve that problem our future must be considered bleak indeed, both economically and in terms of maintaining national sovereignty and political independence.

The heavy deficit in our international accounts each year is in part the cause and in part the result of the great increase in our foreign debt.

Large-scale importation of capital from abroad may be useful to a backward or underdeveloped nation striving to make a sudden jump from a primitive to a modern economy.

But a country which has reached Canada's stage of development can make better progress, and retain more control over its own destiny, by relying on its own savings to provide the necessary capital.

We do in fact generate savings at a rate as high as any advanced nation. If we want to increase our rate of savings further, it is in our power to do so. Many of us could save more, and borrow less, and build a more secure future by so doing.

Some pessimistic observers have suggested that the policy of relying on our own savings for economic development and the related necessity of rectifying

Continued on next page

Editorial continued

our international position by substituting domestic production for imports would require the Canadian people to pay a price much higher than they would be willing to pay.

In point of fact, we do not have the choice. We cannot go on increasing our foreign debt the way we did in the "Fabulous Fifties". We will be forced by one means or another to cut our coat according to our cloth, but we can increase our own production of the cloth in substitution for that previously imported on credit.

We must continue to import in reasonable volume, of course, just as we should make all reasonable efforts to increase our exports, but we cannot and should not continue to import vastly more goods and services than we export. We cannot import in unlimited volume various kinds of goods and services which are beyond our ability to pay for merely because they appear to be cheaper than the cost of producing comparable goods and services in Canada.

A nation cannot truly call itself a nation or provide a satisfying way of life to the many varieties of people within its boundaries unless it can achieve full diversification of its economic activities . . .

In order for Canada to do this we need, in the first place, to improve our educational facilities immensely, we need to have more universities and technical institutions and training establishments of all kinds, and many times as many students and workers in training as at present . . .

And we must provide industrial jobs of every description—in production, in transport and communications, in engineering and scientific work, in many service industries—for those who are able to acquire the necessary training and put it to fruitful use. This is not to ignore agriculture, which is more and more becoming an industrial occupation requiring and utilizing the most advanced technology.

The picture today is to a great and increasing degree that many of the most advanced fields of secondary industry—including electronics and all that may develop into in the future—are dominated and controlled from abroad, with production and exports restricted and managerial initiative stunted in Canada as compared with what they would be under Canadian-oriented management.

Canadians do not even know the state of affairs of most of their major industries as these are owned by foreign corporations which do not find it necessary or desirable to publish statements of accounts for their Canadian subsidiaries.

Canadians cannot participate in the share ownership of most of these industries any more than they participate effectively in the management or in technological development.

The matter of applied research in industry is absolutely vital to our economic future. It has been estimated that private industry's expenditures for research and development in Canada are only one-quarter as much, in proportion to national income, as expenditures by industry in the United States or in England.

The process of the growth of foreign domination in Canada has gone on for so long that perhaps we have become blind to it; we either take it for granted or we fail to realize what proportions it has assumed. No other country would, in relation to its own affairs, have regarded such economic dependence as desirable. And whatever benefits it may have conferred in the past, the danger now exists that it may produce stagnation and a falling back in the parade of modern progress for Canada and for the people of Canada.

I know that more and more Canadians are becoming convinced that there must be a halt in the process of foreign economic penetration in Canada, and a move in the opposite direction. Most would agree, to paraphrase the wording of a famous resolution, that the degree of foreign domination, and especially American domination of Canadian economic life, has increased, is increasing and ought to be diminished.

There are, of course, a number of fields of industrial activity in Canada where the companies are mainly Canadian in character. These are predominantly companies producing for the Canadian market in competition with imports from the United States and other countries.

Continued on next page

Editorial continued

We are told that they cannot progress farther than they have, because the Canadian market is not large enough to bring about lower costs of production, or because styles must be changed onc or twice a year and these must be copied from others which have already appeared in foreign countries, or because there is a lack of applied research and technical skills in Canada which would make processes available to the Canadian industries to enable them to compete with new developments elsewhere, or for some other reason of negative character.

I suspect that important sectors of Canadian domestic industry are often inhibited by the feeling that, if they try to expand further or branch out into new products or adopt the most advanced techniques, such venturesomeness will run into overwhelming competition in import pricing and sales methods from their much larger counterparts in the U.S. and other countries.

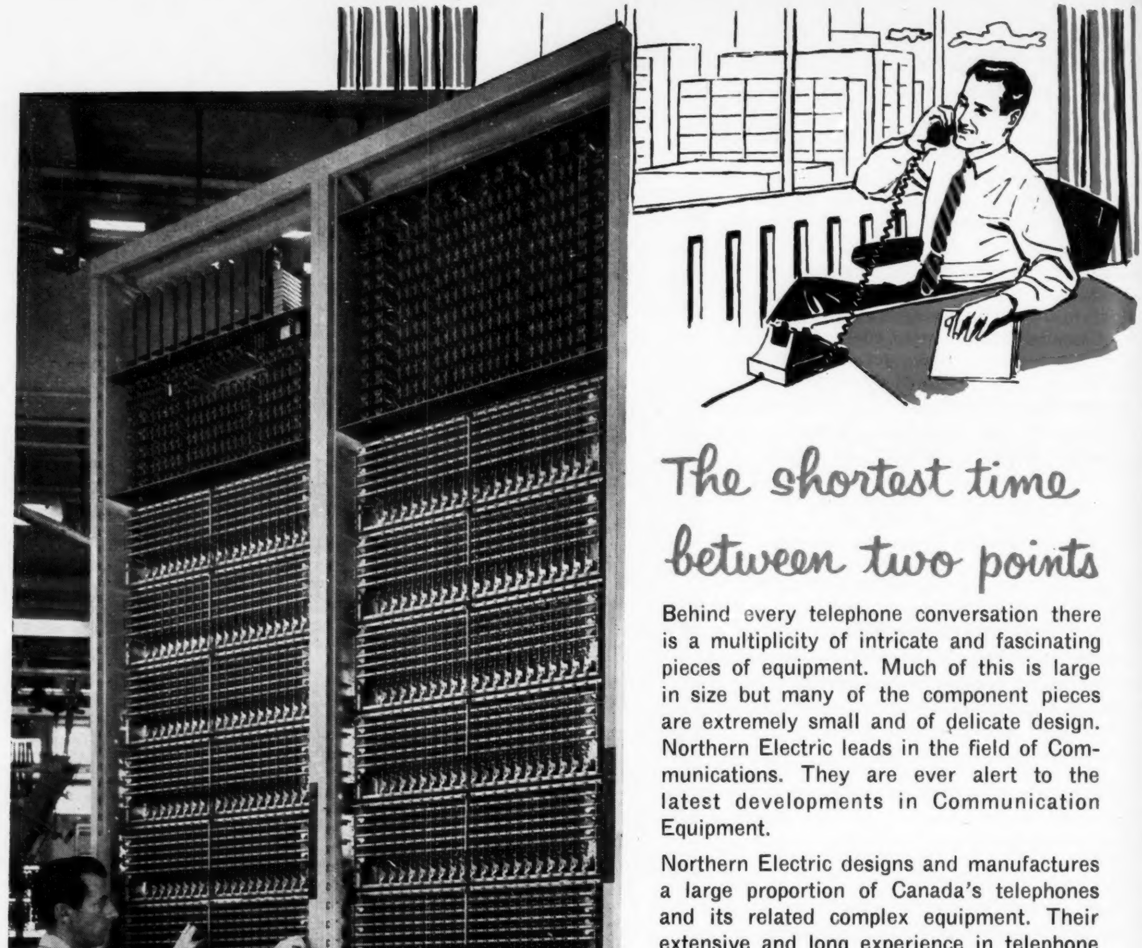
With more educational facilities, with more applied research, with more development engineering and product development in Canada, but above all with a feeling that there was real opportunity for the exercise of these talents, without running into roadblocks or frustrating action from abroad, I for one am confident that Canadian industry could hold its own with that in any part of the world.

If Canadian industry were in a position which could not be overturned by sudden drastic action initiated elsewhere—while maintaining the test of a reasonable amount of import competition as a check—the spirit of our productive enterprises would be completely transformed, and the results might amaze us.

In creative fields we are indeed backward and undeveloped, partly because we have never made sufficient effort, partly because it has seemed so hopeless to make the effort with any chance of success.

Here, as in all other aspects involved in the determination to live within our own means and to stand on our own feet, once a decision has been taken, the effect would be not to restrict our production or reduce our standard of living but to galvanize us into such a burst of new creative and productive activity as we have never seen in this country before.

I feel the time has come when only such an effort can save us, and entitle us to share in the progress of the extraordinary modern age which is now opening for the world.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Our Readers Write

The Editor,
The Business Quarterly:

It is not often one sees in business publications a reference to our business, although interest in card games has made the industry an interesting subject for feature writers in other types of magazines.

Mr. Nicholson's Ottawa letter of your Fall edition, discussing the trade situation with Japan, calls brief attention to our product by comparing the cost of a pack of cards from that country and U.S.A. We are not unmindful of the differential, and you may be interested in my comments.

Our Company is one of those now not too favourably regarded in Canada for the reason that we are an American subsidiary. However, being so we are not one of a minority group. This aspect of our connection would appear to have no relation to the subject of Japanese imports, but, as you and most business men are keenly aware, many Canadian manufacturers could not operate economically without this affiliation. Even with the assistance of a parent organization in the United States, the Canadian manufacturer finds the item imported is priced to sell below his cost. A pack of playing cards is no exception.

Our most reasonable brand must be sold to our outlets for twice the amount reported by Mr. Nicholson at which a Japanese deck is valued. Having this information, please don't try to reconcile it with what you pay a store for a pack. Remember that I said our most reasonable brand, and to that is added a heavy Excise Tax along with Sales Tax. Mr. Nicholson's price of nine cents for a Japanese pack is without these items also.

Continued on page 244

About Our Authors

John R. Kennedy is a graduate student at the School of Business Administration at the University of Western Ontario. He worked for the Hudson's Bay Company following his graduation with a degree in Business and Commerce from the University of Manitoba in 1957.

C. G. Edge, a graduate of London University with a B.Sc. Degree in Economics, came to Canada in 1951. An Assistant Treasurer of Chemcell Limited, he is also Director of the Montreal Chapter of the Society of Industrial and Cost Accountants. Mr. Edge is the author of a special report published by the SICA entitled "The Appraisal of Capital Expenditures."

After graduation from McGill University with a Bachelor of Arts degree in 1923, **Clare Fraser** joined the Bell Telephone Company of Canada. He is now a member of the Plant Management Group in Toronto. An occasional university lecturer in Personnel Administration and General Management at a number of universities since 1940, he has been a member of the Management Training Course Advisory Committee at the School of Business, U.W.O. since its inception. Mr. Fraser is the developer of "The Career Plan for Every Man" and in 1955 formed the Clare Fraser Institute in Toronto.

John F. Graham received his M.B.A. degree from the School of Business Administration, U.W.O. in

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age 243

Chances are you'll never tie up alongside the Canada Steamship Lines' flagship T. R. McLagan at your Imperial Esso service station. But she's an Imperial customer all the same and an important one as far as you are concerned

How ships like this giant grain carrier help Imperial keep the cost of gasoline down

The fuel used by the T. R. McLagan is a thick, heavy black oil—quite different from the light volatile gasoline your car needs.

If gasoline were the only product made from crude, it would cost much more to produce. Instead, research and refining specialists in companies like Imperial have developed ways to utilize *all* parts of the crude, from light gases for making plastics, for example, to heavy asphalt for pavement.

In between are hundreds of other products, like oils, greases and fuel used by the T. R. McLagan and lubricants for your car.

Imperial's efficiency in getting everything out of the crude oil means the prices of all products are low. That's one reason government figures show that in the last five years the average price of things people buy has gone up nearly 16 per cent, while gasoline has actually gone down about half of one per cent.*

***DBS wholesale price index.*

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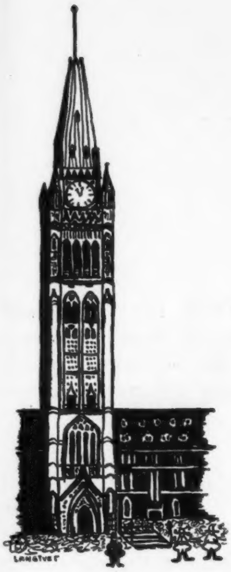

Ottawa Newsletter

PATRICK NICHOLSON

WHAT NEXT IN TV?

Wired television in its various forms will probably provide the next great controversy in the broadcasting field—although it is not covered by the legal or the technical definition of "broadcasting".

This unique form of home entertainment has already been under the scrutiny of the Board of Broadcast Governors here, through a committee to which the Board invited the federal Department of Transport, the Canadian Broadcasting Corporation, and the trade association of private broadcasters.

It will almost certainly be brought to the attention of Parliament, where the ensuing proceedings would provide a vivid example of our federal government's split personality, as defender of the basic human freedoms and as puppet which business interests seek to manipulate to facilitate their greater profits.

Several different types of wired television are widely known in Canada.

The most common utilizes a community antenna, from which individual wires lead to TV receivers in private homes, for which an installation fee and a monthly charge are levied. These facilities normally offer good reception of a choice of up to five regular TV programs picked out of the air; often the operator of the community antenna adds a program of films run on his own projector.

The greatest potential lies in the pay-as-you-look wired TV experiment launched in Etobicoke, near Toronto. This is being closely watched by possible copiers in many countries. In essence, it is your best local cinema brought to your own fireside by private wire running direct from the promoter's projection room to a TV receiver in your home. Its programs are chiefly the best new films and occasional special sports events, neither of which are available on broadcast TV programs. The householder pays a fee of 75 cents or $1 for each evening's entertainment, but only when he opts to use it. This service also provides various local programs as a free community service.

Nearly all Canadian TV stations, both C.B.C. and private, are opposed to the various forms of pay-TV. They charge that it generally constitutes unfair competition for them, because it is not regulated by the B.B.G. and hence not restricted by the Board's stipulation that broadcast programs using "wireless" transmission must contain at least 55% Canadian material.

The community antenna system, they charge, makes money off the back of TV stations by picking up their signals free out of the air, often plus programs from U.S. stations, and then selling them for its own profit.

In this argument, broadcasters choose to ignore two important facts. First, the huge community antenna is beyond the means of an individual householder; yet through community pooling its cost can be afforded; thus TV entertainment can be brought into remote Canadian settlements where the small home antenna could not pick it up. This frequently applies to signals from U.S. broadcasts. Second, the enhanced size of the audience presumably would permit the Canadian broadcaster to bargain for proportionately higher payments from advertisers utilizing his facilities.

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Washington Letter

J. M. Minifie

Election by a slim majority or even by a minority vote has never been interpreted by reforming Presidents to mean lack of a popular mandate. With the exception of Franklin D. Roosevelt, no reforming president has received overwhelming support at the polls—Woodrow Wilson, Theodore Roosevelt, Grover Cleveland, Lincoln himself, are cases in point. There are no indications that John F. Kennedy will consider himself hobbled by his slender popular majority.

Congress will take a different view. The Democrats lost two Senators and, at last count, 21 Representatives. But the old faithfuls are still in control of the vital committees: Sen. Byrd, Chairman of the Finance Committee; Robertson on Banking and Currency; McLellan on Government Operations; Eastland on Judiciary, and on the House side Mills of Arkansas on Ways and Means, Teague of Texas on Veteran Affairs, Walter of Pennsylvania on Un-American Activities, Spence of Kentucky on Banking and Currency, Cannon of Missouri on Appropriations, Cooley of North Carolina on Agriculture, and most significantly Howard Smith of Virginia on the tyrannical House Rules committee.

Kennedy is the man to do it if anyone can. He is hard, aggressive and vigorous. If his campaign form is any guide, he will take and keep the initiative. He understands the pressures which can be brought to bear on legislators. He knows about patronage—and a new president can command a great deal of it.

There is much to be done. After eight years of Republican administration 7,000,000 Americans are jobless or on short time; steel is producing at less than 50% capacity; the United States is outpaced in space by the Russians; the Cold War is in full swing; NATO is in crisis; the dollar is shaky, and an inept attempt to extract $600,000,000 in cash from the West Germans for troop support came a predicted cropper.

On the basis of campaign promises, Kennedy may be expected to bring down the interest rate, increase new starts on resource development (the Columbia River will be important for this), finance and build new school-rooms; and emphasize slum clearance and area redevelopment. His agricultural policy will stress "creative and bold" steps to expand present food exports to countries which are "poor and hungry" following an international food conference "to plan for participation by other countries which possess farm surpluses in helping to combat hunger and promote economic development."

Kennedy emphasized that "after we have produced sufficient food and fiber products to meet all our legitimate requirements at home and abroad, we are not going to let excess productive capacity destroy farm prices and incomes. We believe that an understanding Secretary of Agriculture working with representative farm leaders can develop supply management measures that will eliminate the small but chronic surplus in agriculture now depressing prices and incomes."

In foreign affairs Kennedy promises to negotiate from strength—to increase U.S. military capacity, but also to press for accomodations with the Soviets where they can be reached, for another try at controlled nuclear disarmament before resuming tests and for collective action through the Organization of American States and with the cooperation of European allies against Communism in the Caribbean.

As a long-term preventive, Kennedy considers that "we must immediately act to prevent Communism from taking over other countries in Latin America —by removing the conditions under which Communism thrives."

This view of the Communist challenge and how to meet it was summed up in a speech at Toledo, O., just before the election, in which Kennedy said: "We must become the workshop of freedom to win and to hold the faith and friendship of the underdeveloped countries now coming into their own in Asia, in Latin America and Africa. For what these countries want immediately are the skills and the capital and the economic foundation that only the wealthy countries can supply. And if this country does not take the lead in building up the basic economic foundations of the new countries, if this country does not enter the vast markets of the new continents, then the Soviet Union will; and then the Soviet Union will profit in increased power and prestige around the world."

Business Prospects For 1961

The Business Quarterly presents the results of its annual poll of Canadian Executive Opinion. These forecasts, made by businessmen themselves, of sales, costs, and profits for the coming year are an indication of the climate of opinion in which operating plans are being made.

JOHN R. KENNEDY

The eleventh annual poll of Canadian Executive Opinion by the School of Business Administration of the University of Western Ontario reveals that its members have a fairly pessimistic outlook for business activity in 1961. This outlook is in sharp contrast to the mildly optimistic one that prevailed for 1960. The following highlights are drawn from the results:

1. Most executives are of the opinion that the general economy, as reflected in industrial production and employment, will remain constant. A sizable minority, however, believe that industrial production and employment will drop during 1961.

2. Wages and consumer prices are predicted to increase or remain at present levels; prices of industrial materials are expected to remain constant.

3. Sales of the individual firms will, for the most part, remain constant or increase: inventories will be trimmed: prices will remain stable.

4. Capital expenditures of the responding firms will be the same or lower than for 1960.

TABLE I

Total Number of Replies, Size of Firms, and Type of Industries Surveyed

	Poll #10 for 1960	Poll #11 for 1961
i. Total number of replies	113	119
ii. Relative size of firm in own industry—		
Large firms	50%	55%
Medium-sized and small	50%	45%
iii. Type of firm—		
Manufacturing	73%	74%
Non-manufacturing	27%	26%

TABLE II

Breakdown of Industries Responding

	No. of firms	% of all companies
Food and kindred products	15	13
Finance, Insurance, and real estate	13	11
Electrical equipment and products	11	9
Iron and Steel and products	11	9
Chemicals and allied products	8	7
Textiles and apparel	8	7
Pulp, paper, and printing	7	6
Trade, wholesale and retail	6	5
Petroleum and Fuels	5	4
Leather and leather products	4	3
Machinery	4	3
Public Utilities	4	3
Transportation, storage, and communication	4	3
Mining	3	3
Lumber, and finished lumber products	2	
Stone, clay, and glass products	2	4
Construction and building materials	1	
Other manufacturing	8	7
Other service	3	3
	119	100%

ANALYSIS OF RESPONSES

The total number of replies, the size of firms polled, and their type is shown in Table I. The proportion of manufacturing to non-manufacturing firms is very similar to that of the 1960 poll. There has, however, been a slight increase in the proportion of large firms represented in the response.

Table II, which follows, breaks down the replies by industry and shows both the total number responding from each particular industry and the percentage of the total companies answering which that number represents.

The executives polled were asked to give their expectations concerning business conditions in two areas:

1. the trends of certain indices which are indicators of the state of our national economy.

2. the performance of their individual company in 1961.

The significance of the opinions expressed lies in the comparison of the expectations with those of the previous year. Table III presents a summary of the findings of this year's poll, as well as those of the 1960 poll.

In the areas of sales force and advertising, executives were asked for estimates of increase or reduction for 1961. The following information resulted:

(a) For those firms expecting to enlarge their sales force, the average increase was 8%, and anticipated increases ranged from 2% to 25%.

(b) 25% of the responding firms planned to increase their advertising. This increase ranged from 2% to 60%, and averaged 13%.

(c) A larger percentage of firms planned reductions in their advertising program than in the previous year. These reductions varied from 5% to 50%, and averaged 18%.

Many readers will have an interest in a particular industry. Therefore, executive forecasts by industry for sales and earnings are depicted in Table IV. The significance of these expectations is limited by the number of companies representing the industry, and the reader is cautioned to take this into account when evaluating the results.

PERSONAL COMMENTS

Many executives included personal comments with their replies. These comments, both on the state

TABLE III

INDICES	1960 Poll Increase %	1960 Poll Constant %	1960 Poll Decrease %	1961 Poll Increase %	1961 Poll Constant %	1961 Poll Decrease %
Consumer Price Index	60	38	2	56	32	12
Wholesale Price Index of Industrial Materials	59	39	2	15	72	13
Index of Industrial Employment	43	51	6	13	56	31
Index of Industrial Production	53	42	5	14	61	25
Wages and Salaries of Manufacturing Workers	89	10	1	55	44	1
INDIVIDUAL COMPANIES						
Total Sales	77	15	8	54	36	10
Total Physical Volume	78	15	7	55	32	13
Production for Inventory	26	62	12	16	57	27
Orders for Raw Materials	65	26	9	39	41	20
Prices for Raw Material Purchases	46	51	3	17	73	10
Average Labour Force	34	57	9	15	58	27
Wages Paid to Individual Workers	88	12	0	71	29	0
Prices of Products	23	75	2	14	80	6
Number of Salesmen	43	56	1	29	71	0
Advertising Expense	35	64	1	25	67	8
Capital Expenditures for Maintenance	38	49	13	22	54	24
Capital Expenditure for Expanding Plant	38	42	20	24	36	40
Earnings before Taxes	62	26	12	46	38	16

TABLE IV

Anticipated Sales and Earnings in the Responding Industries

INDUSTRY	EXPECT SALES TO			EXPECT EARNINGS BEFORE TAX TO			
	Increase %	Constant %	Decrease %	Increase %	Constant %	Decrease %	No Comment %
Food and kindred products	40	47	13	47	33	20	
Finance, insurance, and real estate	91	9		55	9	9	27
Electrical equipment and products	27	54	19	19	54	27	
Iron and steel and products		64	36		54	36	10
Chemicals and allied products	37	37	26	50	25		25
Textiles and apparel	37	63		50	25	25	
Pulp, paper and printing	86	14		43	43	14	
Trade, wholesale and retail	67	33		50	50		
Petroleum and fuels	100			80	20		
Leather and leather products	some	most	none	some	most	none	
Machinery	most	some	none	some	most	none	
Public Utilities	all	none	none	most	none	some	
Other areas	Sample too small to draw any inference						

of the economy and individual firm activities, help to give perspective for the quantitative data. Some of them, therefore, are included below:

"Results in 1961 will depend largely on Government action."

"If dumping of consumer goods from Asiatic countries is allowed to continue to grow, unemployment will inevitably increase, and manufacturing businesses will suffer accordingly." (Medium-sized Textiles and Apparel).

* * *

"Generally we feel that business in the second half (of 1961) should show good improvement. Whether it will be sufficient to offset a slow first half is a very problematical." (Medium-sized Banking, Investment and Loan).

* * *

"We plan a fairly large capital expenditure to increase productivity and reduce the work force required.

"We hope to hold the line on wages as competition is so keen that our products are now priced at rock bottom and any further increase in cost of manufacture would result in a loss if we could not increase the selling price for our products." (Large Textiles and Apparel).

* * *

"We expect a slight increase in production and sales in 1961 with profits, we hope, at about the 1960 level." (Medium-sized Electrical Equipment and Products).

"Union wages, fringe benefits, and restrictions have caused losses and made us non-competitive.

"Labour should learn that they must be competitive for us to survive. Unemployment is the tragedy!" (Small Food and Kindred Products).

* * *

"We anticipate costs to be up in 1961, and, in our business, it will take more intensive salesmanship and promotion to continue our planned increase.

"Our advertising budget is reduced because increased advertising rates have brought our advertising out of line. The danger in our whole economy is that of pricing ourselves out of competitive markets." (Medium-sized Textiles and Apparel).

* * *

"The inability of general business in Canada to date in 1960, to continue that impressive growth in most sectors of the Canadian economy, which made the 1950's a period of unparalleled progress, has had a serious effect on sentiment.

"Exports have been larger than a year ago, but there has been little or no improvement in industrial production, manufacturer's shipments, or in retail trade. Prices were relatively stable. With so many industries and businesses geared to a constantly increasing volume of business, any levelling-off creates problems.

"There is no question that critical problems face Canada. Capital expenditures are likely to shrink; Canada may not have access to as much new capital as in the past; competition is bound to be more intense; and profits may be curtailed.

"However, if properly handled, the future may represent a period of semi-austerity rather than recession. While the general outlook is not good at the present time and the plateau-like cycle seems headed down, there are still good optimistic possibilities in the current situation. We must not count our recessions before they are hatched.

With 7% of the world's land area, and approximately 1/2 of 1% of world population, Canada needs immigration, because of current prosperity in those European countries from which most immigrants to Canada have traditionally come.

"We are looking forward optimistically to a challenging 1961." (Large Chemicals and Allied Products).

CONCLUSION

The foregoing data represent the opinions of a segment of Canadian business executives regarding both individual firm and economy activity for 1961. Inasmuch as the purpose of this report has been to present the climate in which business decisions are being made, each reader is left to draw his own conclusions. Nevertheless, certain generalizations can be stated—businessmen anticipate a slowing-up of the economy in 1961; wages and prices will likely remain more stable than in the past few years; inventory accumulation and capital expenditure will be down; sales and profits will show little, if any, improvement over 1960.

SHIFT BY FORD

It Points Up the Mounting Outflow of U.S. Capital

The compelling financial pull exerted by the Old World on the New has been shrugged off in some quarters as merely temporary, or as a crude and vaguely unpatriotic flight of "hot money." Such views, we submit, wholly miss the point. In the best tradition of classical economics, the funds flowing abroad signify capital seeking its most productive, hence lucrative, use. To those who stress safety of principal, Western Europe today can offer a sturdy rate of interest, payable in stable, convertible currencies, by debtors who boast a long history of honoring their obligations. To more venturesome investors, notably U.S. companies seeking to expand, it can add such powerful lures as a friendly political climate, generous depreciation allowances and a tax burden far less onerous than that which afflicts this so-called affluent society.

Indeed, on virtually all of the counts cited above, the contrast between the U.S. and its European rivals is startling.

In Europe, in short, governments by and large have embraced fiscal policies to unleash, rather than hobble, private enterprise.

As the move by Ford indicates, American capital has responded in classic fashion. In so doing, it also has served notice on the incoming administration that domestic policies now are subject to stern checks and balances abroad. Thus what Washington must—and must not— do is plain. It must avoid all measures which, in order to further some narrow interest, tend to raise prices or costs to the detriment of the national welfare. It also must launch a sweeping revision of an obsolete, distorted tax structure which the country plainly no longer can afford. Financial appeals to Bonn, Paris and London may or may not pay off. Sooner or later, however, the U.S. must recognize that solvency, like charity, begins at home.

Barron's

Towards Better Capital Budgeting

Complete, accurate and realistic estimates should be the basis for capital expenditures, according to the author. These estimates and the use of new techniques for calculating return on investment will take much of the guesswork out of decision making in this field.

C. G. Edge

In this era of rapid technological and scientific advances, we sometimes look with envy at the increasing pace of Russian progress under a planned economy. But do we do all we might to promote our own growth? In particular, do we critically examine whether freedom of choice in western economies is exercised as efficiently as possible, in order to promote economic growth and development?

One such area worth reviewing is capital budgeting. Its importance has increased for two reasons. One is the higher level of capital expenditures for new products and processes in the well-developed countries, together with the large outlays being made to foster the industrialization of the under-developed areas. The second reason is that recent advances in the techniques of capital budgeting are only slowly being assimilated.

Capital budgeting for the individual company is concerned with the economics of choosing when, where and how to make capital expenditures for new plant and equipment. It involves decisions on the following problems. What is the total market for the product likely to be, how much of it can the company obtain, and at what price? What size should the new facilities be, and should provision be made now for future expansion? What manufacturing process is likely to be most profitable? Where should a plant be located? Is this the best time to construct the plant, and are funds available? What return on investment can the expenditure reasonably be expected to yield, and how does this compare with (a) the cost of the capital, (b) the return on other projects competing for the same funds?

The chief executive of the company is vitally interested in sound capital budgeting. It is one of the principal tools for ensuring that the business entrusted to him keeps efficiently abreast of the times. Increasing obsolescence, a declining share of the market, stagnant or declining profits may well reflect past lack of a sound capital budgeting programme, which would have identified profitable expansions and guarded against investment errors.

Any fool can make a decision, but it takes more than one man's wisdom to make a sound appraisal of capital expenditures, particularly when they relate to new products and processes. Such appraisals require the collective skills and experience of marketing, production, engineering and financial managers, as well as the combined judgment of top management and the Board of Directors.

The basic problem is always, in one way or another, uncertainty. Estimates are required for several years ahead, and their accuracy depends, not only on future business conditions, but also on technological and other changes. Sound capital budgeting makes no pretence of converting predictions into sure things. What it does is to narrow down the area of uncertainty. It ensures that we use all the facts which are available, that guesses are informed and confined to the points of genuine uncertainty. In other words, it enables the time of top management to be concentrated on the issues for which judgment is needed. It therefore avoids the dissipation of energy on unnecessary obscurities. That is a major contribution to sound decision-making.

The practical requirements for good capital budgeting can be summarized as follows:

(1) obtain the most realistic estimate of future demand.

(2) identify the correct costs for appraising the expenditure—those that are truly relevant to the project, and those alone.

(3) estimate such costs skilfully.

(4) combine the sales and costs correctly over the economic life of the equipment, in order to measure the return on investment.

(5) measure the return on investment in such a way that it is directly comparable to the cost of capital; the safety margin available to cover risk factors can then be gauged clearly.

(6) prepare an objective report, setting forth all relevant facts and also clearly identifying all the aspects which are intangible or immeasurable; senior management can then judge their importance.

(7) in all this, follow established procedures which will free management time from administrative detail.

Most company presidents would subscribe to these laudable objectives. The purpose of this article is to suggest some of the reasons why we often fall short of them, and to make suggestions for improvement.

WHAT HAS TO BE MEASURED

1. *Market Demand.*

Market data is the basic information for estimating the rate of return on investment. The simple, but often dangerous assumption that capacity production can be sold throughout the life of the project should never be accepted without adequate supporting evidence. It is necessary to obtain sound estimates of the total market, the intentions of competitors and the share of market that can be achieved. All this warrants the use of the top talents available, both inside and outside the company.

2. *Cost - Price Trends*

The demand that has to be measured is dynamic —it is demand over time, not only now. It has to be related to prices. And in this connection, the common assumption that the trend of future prices and costs will be parallel can be dangerous. Often costs increase through inflation, while prices may decline as the product is subject to competition from a newer model or type. Careful consideration, therefore, should be given to the extent to which a possible divergence in the trends of prices and costs may affect future earnings.

3. *Incremental Costs.*

It is a truism that costs cannot be defined without relating them to the purpose for which they are incurred. Costs needed in capital budgeting are often different from those in cost accounting and in financial statements.

In the first place, only costs which change if the investment is made, compared with those that will be incurred if it is not made, are needed. These are incremental or marginal costs. They include both short-run costs within the framework of existing plant capacity and long-run costs, such as depreciation and maintenance, as well as the so-called "fixed" costs which increase when operations are expanded. The latter are often not evaluated as they should be. There is a tendency to assume that they will not change when operations are expanded. Yet an examination of past trends of service and administrative expenses generally points towards growth.

Secondly, with the more refined techniques for calculating return on investment, only cash costs are needed. It is the timing of cash outlays and cash revenues which are the determinants of investment worth.

Thirdly, it is future costs that are relevant. Past costs are only useful insofar as they provide a sound basis for projecting the future.

4. *Capital Costs*

Estimates for plant and equipment are usually more accurate than for earnings. Nevertheless, care and skill are needed to obtain reliable data on these expenditures. Historical engineering data, standard engineering estimating techniques and firm quotations, whenever possible, are valuable aids.

5. *Economic Life.*

One of the most difficult estimates is that of the economic life of the equipment. It is, however, crucial to investment appraisal. The return on investment cannot be calculated without it. If conditions are too uncertain to obtain a reliable estimate, it is often possible and helpful to specify, with sufficient accuracy, that equipment will last a minimum of so many years. Conservative estimates, on this minimum basis, are often the most reasonable guide to investment worth.

6. *Supply and Cost of Capital.*

There are usually advantages in appraising the economic attractiveness of projects independently of the method of providing the necessary funds. The two sides of the equation can then be matched at treasury level and above.

However, a proper appreciation of the cost of capital is useful in establishing cut-off points of minimum economic attractiveness, and also in gauging the safety margin available for risk factors.

Two points appear to be only partially understood. The first is that often new capital can be raised only in large blocks and at infrequent intervals, whereas project proposals may require expenditures at different times. The two flows need to be reconciled. Also, bond indentures may include restrictive clauses limiting future capital expenditures.

Secondly, there is a widespread belief that new capital can be raised through leasing, or by bonds, without affecting the terms on which new equity capital can be obtained. This is often not so. It is usually sounder to consider the cost of both equity and debt capital in the proportions appropriate to the type of company concerned.

SUMMARIZING THE ESTIMATES — RETURN ON INVESTMENT

When information of the above kinds has been assembled, as fully and realistically as possible, how should the benefits arising over the whole life of a project be related to the initial expenditure?

There is now widespread acceptance that it is the future cash revenues (sales less costs) which should be related to the capital expenditure. Futhermore, new methods have recently been developed for measuring the return on investment. While they are described by a formidable array of names such as "interest rate of return", "internal rate of return", "investors' method", "discounted cash flow", "present worth", and "time adjusted return", etc., nevertheless they are basically very simple. They are based on the same compound interest formulae that are used by investors for the calculation of, say, bond yields. The return on investment is, in other words, calculated in exactly the same way as the "cost of capital". The spread between the two rates, therefore, provides an accurate gauge of the safety margin available for risk factors. It is the logical yardstick for management to consider in deciding whether to accept or reject an expenditure proposal.

In addition, the newer methods of investment appraisal are more sensitive than the older ones. They give due weight to the fact that earnings are more valuable if received earlier than later; and also accurately reflect the effect of diminishing balance depreciation on taxes payable.

In the past, a single measure of return on investment has been regarded as a useful tool for measuring many diverse problems such as operating manager performance, financial management, and investment worth. No general purpose tool, however, can be very sharp, and just as the jig-saw and the circular saw have replaced the hand saw, so different return-on-investment methods have been developed for different uses. While many refinements are possible, for most practical purposes rate of return based on the discounted cash flow, and compared with the cost of capital, is the best tool now available for investment appraisal.

In most cases, it is only necessary to measure the rate of return by estimating the incremental sales and costs over and above those arising from present facilities; but this may not always be adequate. For example, in an expansion of an existing plant or process, it is usual to measure the incremental rate of return starting from the existing plant capacity; however, if the existing operations are losing money, it is necessary to check whether the expanded plant will yield a satisfactory rate of return in total. Otherwise, good money may be poured after bad.

Similarly, there are often different ways of carrying out a project requiring different capital expenditures and yielding different profits. It is worthwhile checking whether the additional profit from each additional capital expenditure yields a satisfactory return. Furthermore, the rate of return from owning compared with leasing should often be examined.

Further problems arise in expanding a plant with multiple process stages. The stages usually have different capacities, and a unit added at one stage may have different capacity from another. For example, in a pulp mill, one more digester may yield X tons of additional pulp, whereas an addition of a dryer will yield Y tons, and a barker, Z tons. For some purposes, it is more useful to view each project within the framework of the economics of a balanced expansion of the mill, as a whole. For others, it may be more appropriate to regard a project as "rounding out" an unbalanced mill. It all depends on the purpose of the proposal.

Even with the best of estimating techniques, there is still a large area left to subjective judgment. It is useful, therefore, to measure how much different estimates of, say, costs alter the expected return on investment. Similarly, data is also useful for estimating the effect of changes in price or volume. The return on investment at capacity production, and the level of production at which operations would just break even, are equally important data for management.

OBTAINING FACTS AND PRESENTING RESULTS

One of the commonest reasons for inadequately-prepared appropriation requests is simply lack of

knowledge of what is required. One can sympathize with the operating manager down the line who sees the problem simply in terms of "either we make the expenditure or we don't, so let's cut the paper work and get on with the construction". Yet the facts and forecasts originating down the line organization may be crucial in the appraisal of a project. Wider understanding of what is needed for the sound appraisal of capital expenditures is essential in large companies.

In addition, it is difficult to arouse sufficient enthusiasm for sound estimates of economic life and penetrating projections of future earnings. After all, the decision to invest often cannot be proved to be right or wrong until after several years have elapsed. Consequently, individuals are often more concerned with how their present actions are judged, rather than with estimates relating to the future, particularly when they may not be around to receive the pat on the back when they are proved to be right.

Moreover, some capital expenditure proposals are highly subjective. Pet projects are sometimes "pushed" by individual managers. Any questioning of the estimates may be looked upon as an unwarranted intrusion in their private domain. Any delay in reviewing the documents, it is claimed, would imperil the whole project. This can be dangerous. If the risk of erecting "monuments to inefficiency" is to be reduced, the area of uncertainty in estimates must be reduced to a minimum. That is the essence of investment appraisal.

Busy executives often fail to turn back inadequate reports for amendment, or to give the required coaching to their staff. This makes higher standards hard to achieve, whereas a demand at the top for first-rate reports and estimates can have a healthy impact far down the line organization.

Formal procedures for preparing and presenting capital expenditure proposals have many advantages. Standard terminology, estimating techniques and methods of appraisal enhance the comparability of appropriation requests arising in different parts of a company. If standard procedures encourage decisions throughout the company to be made on the same basis, authority for approving less important expenditures can be delegated with greater confidence, and senior management time can be freed from administrative detail. As a result, more time can be devoted to those major capital expenditures that have the greatest impact on the long-term future of the company.

THE COST OF CAPITAL BUDGETING

Capital budgeting is a simple matter in principle, but not in detail. It requires many skills, several of which are only acquired after on-the-job experience. Not only is a knowledge of estimating and forecasting needed, but also there must be familiarity with the concepts of return on investment, and with scientific method. The ability to write clear, concise reports is very important. Such skills cannot be acquired overnight, and capital budgeting does, therefore, take time and money. But these costs are trivial compared with the risk of wasting many millions of dollars on a badly-conceived investment.

SUMMARY AND CONCLUSIONS

Sound estimating and forecasting techniques can do much to relieve management of guesswork. The techniques of calculating return on investment will enable management to avoid making judgments on the basis of inaccurate or ill-conceived data. Senior management and the Board of Directors can then concentrate on the real problem instead of being diverted by administrative details, or having to rely in good faith on the judgment of their junior staff. The price to pay to avoid these weaknesses, and instead be able to exercise a rational choice, is to set up sufficient skilled staff for capital budgeting and to ensure that they are adequately trained for the job. The benefits are that mistakes, of omission or commission, should be fewer. Fewer opportunities will be missed, fewer monuments to error will be constructed.

CONTROL OF THE OPERATIONS OF STATE BOARDS

The paramount factor affecting control of a State Board, as compared with control of the general run of industrial and commercial organizations in a free economy, is its monopoly powers. All State Boards have a degree of monopoly power and most have an absolute monopoly of their own product or service. Hence they suffer the loss — a very great loss in terms of managerial control — of consumer discipline.

Some consumers — particularly in a sophisticated society — will express any grievances they have about a product or a service to their Member of Parliament, in the Press, or directly to the management of the defaulting organization itself. But all consumers, whether sophisticated or naive, rich or poor, young or old, exercise automatically in a free market the most powerful single control over managerial efficiency—the right of choice.

—J. Sandford Smith, *The Manager,* Journal of the British Institute of Management, March, 1960.

A Map-Language For Managing

In this article, the author describes a map-language system that he has developed. He suggests that its use will allow many people, from executives to schoolboys, to become more competent in related thinking and related recall. The author is the founder of the Clare Fraser Institute in Toronto.

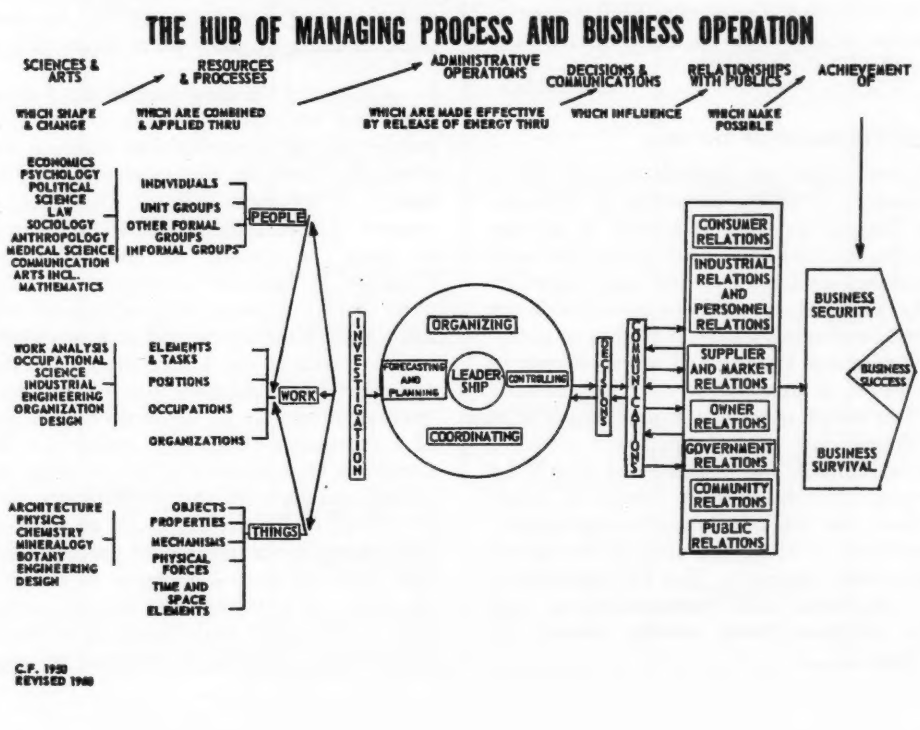
CLARE FRASER

This article tells of recent experience in applying a new technique to the study of business administration. This technique goes under the name the HUB CHART. The chart was developed by the writer for use by the members of the Porcupine Institute of Administration, in 1950, as a guide for their study program. Since then the use of the Hub Chart has been extended to many other applications. A recent application has been in "photographing" case discussions at Western's 13th Management Training Course, attended by 130 executives. It appears to have considerable potentiality in improving management performance.

WHAT IS THE HUB CHART?

The chart is shown in Figure 1. it depicts the normal movement of thought and events in managing, sweeping from left to right. It is a map system.

Figure 1



This Hub Chart shows key words, well-known to managers, in fixed and related locations. It is the relative positions of the key words which give structure to the map. Their positions represent the locations by which we associate them and remember them. For example, any item of a "Things" nature is associated with the lower left area of the map, just as Spain is associated with the lower left hand corner of a map of Europe. This makes immediate identification possible.

This is the key also to related thinking, and related recall. If we think of a new product being popular with customers, we see a direct relation between the lower left area (Things) and the upper right area (Customer Relations). This is like thinking of Spain in relation to Sweden on the map of Europe.

We use this related position idea in use of arithmetic, which is also a structural language system. For example, the figures 1—2—3 in combination have meaning for us, and are recalled by us according to their relative position; 123 and 321 and 231 do possess the same components, but have different meaning in combination. These ideas on language structure are well known to students of general semantics.

WHY USE IT?

This Hub Chart can help a manager achieve his objectives—conserve his time—improve his ability. Specifically it can be useful to picture performance—for purposes of recall—as a feedback system—for analysis—for planning—as a learning guide.

ORIGIN AND DEVELOPMENT OF THE IDEA

In 1950, the writer was invited to meet with a group of managers of mining properties at Timmins in Northern Ontario in what is known in mining circles as the Porcupine Camp. This group had been studying the theory of administration, and wished to plan their next year's studies and discussions with the purpose of relating their theoretical studies to everyday business operation. Having had no experience in mining, the writer in preparation tried to visualize the frames of reference used by a mining engineer in converting himself into an informed and effective manager. So he thought, and doodled and sketched a pattern of words and ideas—from 'things' to 'work' to 'people' then over to 'administrative operations', which he encircled as being the area of theoretical study by these mine managers. This led naturally to ideas about 'decisions' and 'communications' and 'relationships', all these things moving toward 'objectives', or 'goals'.

With these rough sketches and a few notes he went to Timmins and met the group who on a blackboard sketched out their next year's program using the Hub Chart as a guide. The group came to a pause at 1:30 a.m. after a long evening's discussion. They decided to use the Hub Chart as a guide to their futher studies, and it has served as a guide to successive study groups in the intervening years under the leadership of the Porcupine Institute of Administration and men such as Ted Perry, Maurice Williams, Tommy Thompson and others. Later by contagion it moved over to the Elliot Lake Institute of Administration, formed in 1960 under the guidance of Bob Olson, Rube Yourt of Rio Tinto Mining and others.

Being impressed on his brain by the strenuous test given the Hub Chart at Timmins in 1950, the pattern of the chart remained with the writer. After that experience he found that he was using it for purposes beyond the guiding of a study program. He found he was using its pattern as a means of detecting what was going on, and remembering it when visiting factories, construction jobs, and other work places. He found he was listening to business talk, and seeing the ideas related in the Hub Chart pattern. In leading a meeting he found he was spacing items of discussions as positioned on the chart, on board sheets and blackboards often without reference to the chart headings, and linking up the items with connecting lines, thus forming what he began to think of as circuits of thought. He found himself across a luncheon table pulling an envelope out of his pocket and sketching key notes for his companion's clear understanding of some point under discussion.

Gradually the map pattern has become as much a part of his memory recall system and reasoning process as the topographical map of the township where he lives, or the road maps he uses on his travels. It has been natural, therefore, for him to present this pattern to others as of possible help to them, particularly to men who are planning a career in business management. This has been done before groups of professional and management society members, and at business forums, such as job clinics at the University of Western Ontario and elsewhere. Another use of evident increasing general interest is its application to a group review of a company's operations, which the writer calls a Company Operations Review. In these instances the Hub Chart pictures the performance and problems of a company in action, much as a good evaluation and rating device represents performance and problems and needs of a manager in action. Frequently the chart, or portions of it, can be useful as a feedback to managers, individually or collectively, particularly when oriented to personal or group goals.

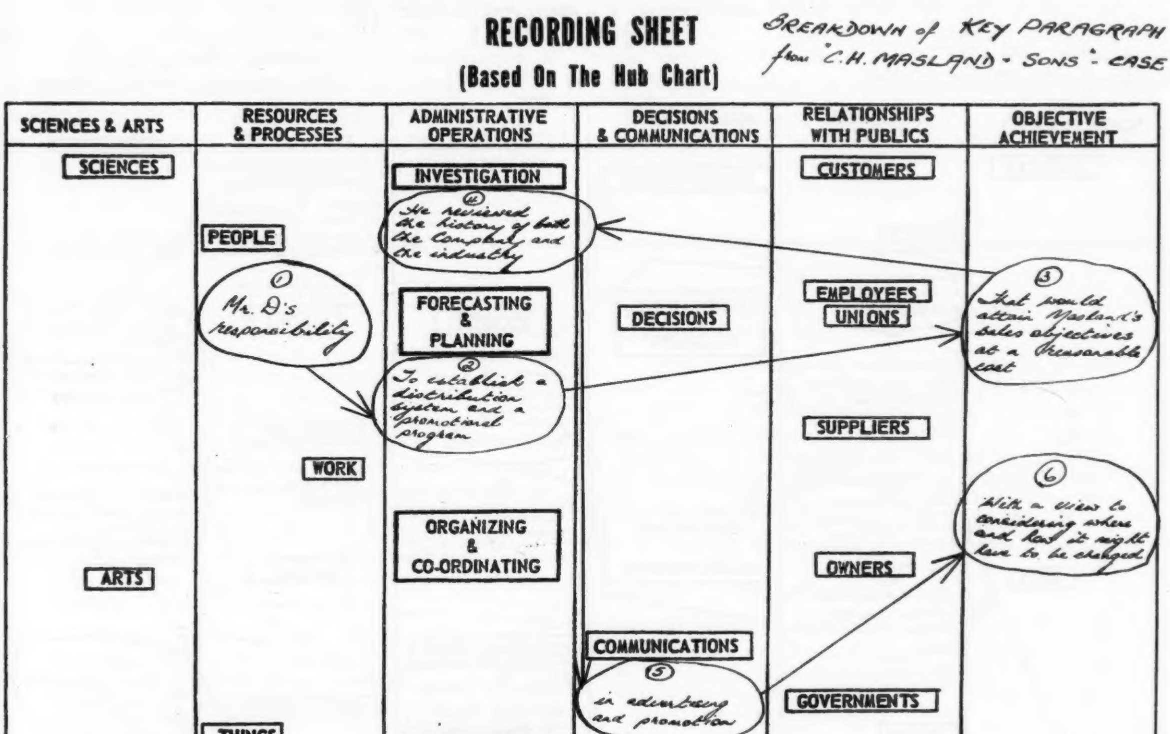
Initially, back in the Porcupine Camp, this Hub Chart pattern was recognized as a guide to progressive learning. It has retained that use. Beyond that it is now becoming recognized as an aid to awareness and sensitivity in many diverse situations; as a tool for diagnosis through deepened and sharpened perception and analysis; as a path-finder to the future, or what the writer calls a director-projector. It can be used by any individual in his own self-management; by persons who work closely with others in a directly-associated relationship; by managers of organizations, and leaders of units or functions of such organizations.

The pattern of the Hub Chart is finding its way into many other interesting and varied uses. It finds itself portraying such diverse activities as company marketing plans; community fund-raising; teen-agers' preparations for examinations; accident prevention activities; planning and control of school building maintenance by boards of education; clarification of economic and financial reports; planning business trips, and business conferences; in the field of selling; in editing business literature. One disciple of its use, himself engaged in public service, and aware of the avalanche of economic and social information which the peoples' representatives must grasp in limited time, suggests this tool as a useful abstracting and sorting out device for members of our legislative bodies.

ONE APPLICATION—MAPPING A DISCUSSION

Up to a few months ago the writer had some trouble using the case method. When in a student role he found it difficult to read rapidly through case material, get the picture of the setting and action, and hold it in his mind for the time of the case discussion During the discussion he found it difficult to 'see' what his associates were talking about; and when it was all over he was foggy on what we had actually done or gained. When leading a case discussion he

Figure 2



had all the difficulties of the student role, plus that of putting key items down on the blackboard.

With these thoughts in mind and a feeling of curiosity on what might be done to cope with these difficulties through the Hub Chart technique he suggested to Walter Thompson, Director of Western's Management Training Course, that a look at the case method in action be taken during the 13th Management Training Course. This was arranged and he charted 10 case discussions, including the C. H. Masland & Sons case.

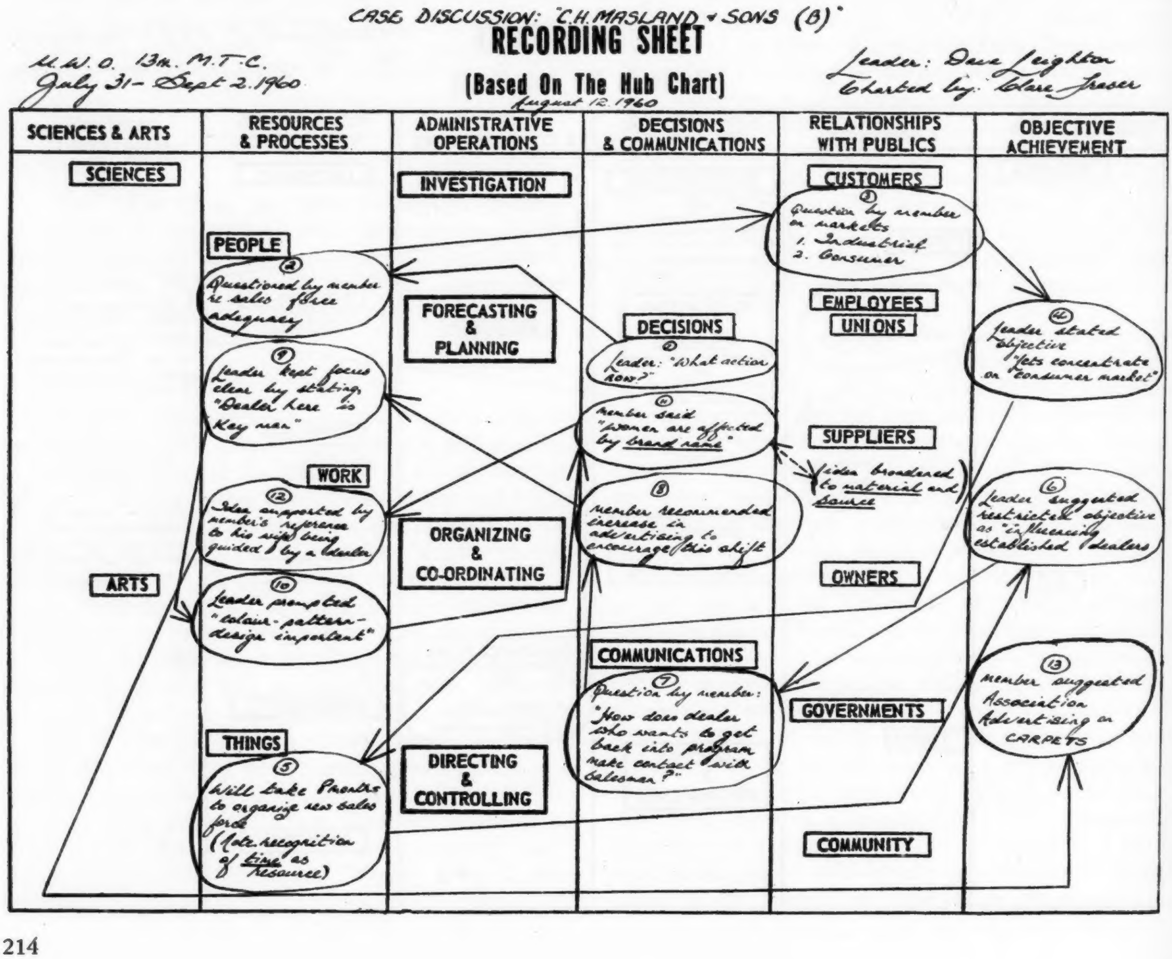
This case was discussed by members of the Management Training Course, on August 12th, led by Prof. D. S. R. Leighton. The writer charted the main items in the discussion.

It may help the reader to understand the use of this Hub Chart map-language system more clearly if we look at a key paragraph in the Masland case.

"After termination of the sales agency agreement with Alexander Smith, Inc., in June 1953, several questions of broad marketing strategy faced Mr. Gerald C. Denebrink, Vice-President for Sales of C. H. Masland and Sons. Masland's sales objectives for 1953-54 would, if attained, place the Company substantially ahead of two other medium-sized firms, Firth Carpet Company and Artloom Carpet Company, in terms of sales volume. It was Mr. Denebrink's responsibility to establish a distribution system and promotional program that would attain Masland's sales objectives at a reasonable cost. He reviewed the history of both the company and industry in advertising and promotion with a view to considering where and how it might have to be changed."

The last two sentences starting with the words "It was Mr. Denebrink's responsibility—" are broken up into

Figure 3



their components and mapped on Figure 2, Recording Sheet. This illustrates the use of the Hub Chart system in reading a narrative statement on managing. With practice in this system a reader can quickly spot and recall related items. He will find that after he gains practice his response and recall will become automatic. He will map the contents mentally whether or not he records them on paper, just as an alert traveller will make a mental map of the road he has travelled, or of a road system described to him for his future travels.

MAPPING THE CASE DISCUSSION

Figure 3 shows how the writer mapped the entire discussion. The small encircled number shown with each recorded item indicates the sequence in which the items appeared in the discussion. In a discussion of this kind it is common to have a bit of brush-clearing at the start. This happened here, up to item 4, when the leader gave direction by suggesting "Let's concentrate on the consumer market." He steered the discussion also in items 6, 9, 10. By thus sustaining a natural sequence of thought the leader aided the group of executives discussing this case to develop an interesting and thought-provoking examination of alternative approaches to marketing. Frequently, in case discussions the items do not follow such a normal thinking process by the group, but tend to shift sharply and at random from one idea to another.

Speculating on various directions this discussion might have taken can be an interesting exercise for all students of the managing process. Such speculation can be of particular value to leaders and others interested in methods of management training and education.

CONCLUSION

For a generation or more, football was played and developed by players and coaches who depended on very limited observation and recall systems. Then came the motion-picture camera which captured the game as it was played, and held it for feedback and analysis. Similarly, the tape of the modern recorder catches and holds a tune, a song, or a speech for future usefulness.

It is the hope of the writer that map-language systems such as the Hub Chart will now be developed and brought into use so that the art of managing may be learned and practised with greater proficiency by the practitioner; with better communication among practitioners; and to assist teachers of business administration in effective coaching. As modern management moves forward over the next decade, it should be possible for the trained manager concerned with the managing process to see it in action—hear it when spoken—read it when written—and map it in his head and on paper.

EFFECTIVE COMMUNICATION

The determining factor in effective communication is conviction. The authoritative voice that carries its message straight into the heart of every listener is that of the man who knows exactly what he believes. His utterance simply will not be denied, because it pours straight out from his spirit. Form does not matter. His sentences may not parse, he may commit crudities of pronunciation, his metaphors may lack polish, but people will listen with rapt attention because he believes so earnestly in his cause. No new marvel of technology will ever be able to bestow that quality synthetically upon a banal message from a man who has nothing to say because he believes in nothing.

With growing anxiety, society today demands from management the formulation of a new business philosophy, a reevaluation and restatement of the purposes and objectives of the system of private enterprise. Our way of life is on trial in the court of world opinion. Our creed is being distorted by our enemies with deliberate misrepresentation and by ourselves through default. We are not talking back. Sometimes I even ask myself guiltily whether we are capable of talking back.

This rethinking of values must begin in the heart and mind of each individual charged with forming policy. He must pause in the frenzy of his routine until he can determine just what the true image is which he wishes the public to form of his company. He must then inquire searchingly of himself whether that goal carries a full measure of responsibility in a free society and whether the effort required to achieve it by all those employed by the company is consistent with the full realization of their own personal goals as citizen members of a free society.

Communications to the customer, the worker, the official staff, the government, the stockholders, and the public will function smoothly and effectively when total policy is thus conceived in terms of total wisdom and responsibility.

—Clarence B. Randall,
Dun's Review

Business Education Under Fire

Two intensive studies of the current state of business education in the United States are discussed by the author. And he notes that they are applicable to the scene here in Canada. The author is a lecturer in Finance, Accounting, and Investment at the School of Business, U.W.O.

JOHN F. GRAHAM

In the Fall of 1959, two publishing events took place in the United States that promise to be of profound significance to the future of Canadian business education and business. To date, however, these events have passed almost completely unnoticed in this country, even though the education of future Canadian businessmen will undoubtedly change significantly as a result of their occurrence.

The events were the publication of two serious and intensive studies of the current state of business education in the United States. Both were originated and financed by leading charitable foundations—The Ford Foundation, and the Carnegie Corporation. The studies are *Higher Education for Business,* by Robert A. Gordon and James E. Howell (The Ford Study),[1] and *The Education of American Businessmen* by Frank C. Pierson (The Carnegie Study).[2] Although the orientation of these reports is primarily American, they have considerable applicability to the Canadian academic scene. The two reports survey current U.S. business education from the junior college level through to management development programs, but their main concentration is on degree courses at both the undergraduate and graduate level.

These reports have hit the U.S. academic world like a bombshell. Already they have provoked not only discussion, but action as well. Their impact has been widely compared with that of the Flexner Report on medical education, made at the turn of the century, which resulted in tremendous and far-reaching changes in the teaching and practise of medicine.

Both the Ford and Carnegie studies were commissioned for a number of reasons, the more important being to see if business education was in accord with the dynamic and complex nature of today's business; to assess whether existing programs were really the best way to prepare prospective business men for their future careers; to see if businessmen were adequately prepared for the role of leadership that they play, not only in management but in society at large; and, probably most important of all, to assess the various types of programs available at a higher academic level to educate the future American businessman.

Although the two studies were similar in terms of scope, the method of attack, the data used, and of course the recommendations made were not completely identical. In addition to evaluating undergraduate education and graduate education, both reports also closely examine doctoral programs, teaching faculty, research, night school and extension programs, and management training courses. But both studies were primarily concerned with undergraduate education, since this type of course covers the largest number of business administration graduates. Secondarily they looked at graduate education, since graduate courses in business account for a substantial amount of all graduate education in the U.S. For example, in the United States one out of seven Bachelors' degrees is earned in business administration (in 1957-58 there were 50,000 such Bachelors' degrees), and there were no fewer than 5,000 graduate business degrees granted. This would seem to be reason enough for looking closely at these facets of business education.

CONCLUSIONS OF THE STUDIES

These two well-documented reports both conclude that the prospective businessman is getting a slipshod education at most institutions in the United States. Although there are some schools and universities

[1]The Ford Foundation, New York, 1959.

[2]McGraw-Hill, New York, 1959.

that do an excellent job, and those schools are really outstanding, e.g. Harvard, Northwestern, U.C.L.A., many schools and departments of business are below par. The general conclusion, nevertheless, of both reports is that formal education, especially at the undergraduate level, is of neither the quality nor the intellectual level to prepare the student adequately for his whole business career.

The two studies both contend that undergraduate programs are particularly weak in the following respects:

1. Too much emphasis is being placed on business subjects and not enough is being placed on the basic disciplines of English, Mathematics, and the Social Sciences. In too many cases, 60% or more of the subjects taken for the Bachelor's degree were business or business-oriented subjects.
2. Too many courses are largely descriptive and hence are not stimulating intellectually; this type of vocational course often is characterized by the memorization of minutiae, and since there is no intellectual depth to the course it has no place in higher education.
3. There are too many courses and programs are too specialized—many schools offer well over 100 business courses, including such questionable courses as selling insurance, cotton marketing, resort club management and buying supplies for a bakery. Many of the schools surveyed encouraged this type of specialization by the student rather than breadth of educational background.
4. A great many schools have low or non-existent admissions requirements and at the same time do not have enough graduating standards—they are graduating people who should not have been in a university or college in the first place.
5. There are not enough qualified faculty people, and many business teachers are extremely narrow in their outlook. They are overly specialized, rather than being management-minded in the broad, comprehensive sense of that term.
6. Too few schools have clear goals or objectives. There are too many schools and too many faculty members who have little if any idea as to what business education should consist of, or how it should be taught.

The Causes

It is astonishing that business education is generally so poor. While during the past quarter-century business has grown in both size and complexity at a very fast rate, the education of prospective businessmen has apparently just not kept pace. The blame for this situation cannot be directed at any one particular group: other faculties, university administrations and business itself are responsible in part, along with the business schools themselves. In many cases it is a situation of what should be long-range educational goals being sacrificed to meet the immediate demands of industry. Many executives speak about needing the "broadly-educated man", but the individuals in industry who hire and use new graduates are usually faced with more immediate needs: How can I use the man right now? At the hiring level the emphasis is often on what kind of vocational skill the individual has now, not on how useful the individual will be in 20 or 30 years to the firm. Business most certainly has to bear its share of responsibility for this situation, since this pressure on business schools has a great deal to do with their bleak situation today.

The major problem areas in business education are recognized and cited by both reports. From their extensive analysis, the authors spell out some fairly definite recommendations on how these problems should be corrected. Fundamentally, they argue that education should be for the whole man and should equip him continually to meet the demands of the dynamic society in which we live. The basic education of a student should not prepare him for just his first job; it should prepare him to take his whole business career in his stride. This cannot be accomplished by only teaching professional subjects, by overspecialization or by the vocational acquisition of many skills. Since business administration by its very name implies management, the educational process should be management-oriented. This means that in addition to the necessary skills the student acquires in his education, he should also develop the capacity to solve complex business problems and to manage people—skills which are, after all, the principal jobs of the manager. The higher up in an organization an individual goes, the less he uses technical skills and the more he uses managerial skill.

Schools that are management-oriented and that also recognize the need for a good general education of the student can accomplish this goal best. This is not to say that all schools should be strictly management-oriented in their programs. The schools that are not, however, must recognize their limited boundaries and do the most effective job they can within these boundaries. That job, according to both studies, is to stress the analysis of business problems and to give the student a real intellectual challenge. Only in this way will the student learn to think. To illustrate, a quote from the Ford report:

Business is coming to place greater emphasis on the kinds of knowledge that contribute to analytical capacity, to breadth and flexibility of mind, and to the ability to cope with a technological, social, economic and political environment that changes with bewildering rapidity. Business still has a demand for specialized knowledge, but the demand for specialized training for the lower positions in management is tending to diminish, and the demand for a higher order of specialized knowledge and technical skill—derived from the physical and social sciences and from mathematics-statistics—is tending to increase. Beyond this, the need is for some knowledge of business and economic 'fundamentals', of the art of communication and of the problems created by organizational relationships, as well as for the kind of broad background that contributes to the basic abilities mentioned a moment ago.

Both reports concede that business education is probably most effective at the graduate level, that is, after the student has already received a Bachelor's degree in some other area such as Engineering or General Arts. This is the ideal, but ideals often have to be compromised in the face of reality, and business education is no exception. Most students, at least at the present time and more especially in Canada, cannot afford to spend four years getting a Bachelor's degree, and then another two years to earn a Master's degree in business administration. The Ford Report definitely feels that this is the best solution but realistically recognizes that undergraduate programs are here to stay, for the foreseeable future at least

Graduate programs in business do come in for some criticism. The indications are that because of the rapidly-increasing graduate enrolments, graduate schools will be playing a much more important part in the educational process within a very few years. The graduate schools have many of the same problems as the undergraduate programs, but these problems are not as acute. The reports agree that the graduate programs at such schools as Harvard, Chicago or U.C.L.A. are really outstanding, and educational leadership in the business field is centered in the large graduate business schools. Graduate schools have also tended to be more management-minded throughout their history (a point the reports approve) and have placed more emphasis on the development of analytical abilities on the part of the students. This is coupled with the fact that graduate schools generally attract a better calibre of faculty since, as the Carnegie report points out, graduate teaching in business carries more prestige, gives the instructor more freedom, provides a generally-better atmosphere for both teaching and research, and quite often yields higher pay. Moreover, the student has presumably come in with an undergraduate degree, usually in a non-business field. All of these factors point to the fact that graduate programs are, on the whole, considerably better than undergraduate programs. This does not mean that the graduate schools cannot improve their programs. Much more stress could be put on the analytical approach to problem-solving and the development of the new frontiers of business education, such as the application of mathematics to business problems.

Since a major criticism in both reports is the heavy emphasis in most undergraduate programs on business subjects, the Ford and Carnegie reports suggest that the ideal undergraduate program would consist of at least 50% non-business subjects, and the remainder business subjects. They suggest that the non-business subjects be founded on a good basic core of economics, English, mathematics, and the social sciences; these basic disciplines are playing an increasingly-important role in the business environment. The reports go further to suggest that other non-professional courses in the humanities and natural sciences be required to give added breadth to the curriculum. The professional courses would be structured around a fundamental group of subjects which cover the functional areas of business: accounting, statistics, marketing, finance, production, and human relations. It is recommended that these courses be problem-solving, decision-making courses that would be tied together by a vigorous policy course in a student's final year. Both reports recommend that the students take some type of managerial economics course and a course which would cover the relationship of business to the legal, social and political environment in which it currently exists.

Certainly, having the "ideal" curriculum that is recommended by no means indicates that a school will produce the best or even good students. There are, of course, many other factors involved—the quality of students, the quality of teaching in non-professional courses, the quality of the business school faculty itself, and the admissions and graduation standards of schools. There is no doubt, however, that getting such a balanced program would be a big step towards the improvement of most existing courses. The authors of the reports realize and appreciate that there are many obstacles to implementing the type of programs they recommend. Qualified teachers are getting in shorter supply every year. Senior faculty members will probably protest the dropping of courses that they have "fathered" which, for the purposes of higher education, are too specialized or vocational in nature. There is also the

problem of getting other faculties within the university community to give the non-professional courses that would be best suited to business students. Finally, there is the problem of a substantial cut in business school enrolments if admissions standards were significantly raised; this would have financial repercussions which could have a very material effect on many institutions unless funds were forthcoming from some other source.

The Canadian Scene

How do Canadian schools compare with the schools studied in these two report? In general, they appear to compare fairly well. One reason could be the fact that the Canadian B.A. degree is often an "honours" degree. When it is, this means that the student has had five years of college-level subjects in contrast to his U.S. counterpart's four years (for example, in Ontario Grade 13 is equivalent to first year of college in the U.S.). The problem of including the basic disciplines is not as evident in Canadian business education as it is in the United States: most schools require a solid core of the humanities and sciences in their Commerce or Business Administration programs. Students at many Canadian universities get about 60% of their college-level courses in non-business subjects, including the subjects in Ontario's Grade XIII. Recognition of the need for more mathematics in a business education is just emerging, and has probably not been fully appreciated by most schools. At U.W.O., the Business School faculty is just this fall instituting the requirement of a second full-year University-level mathematics course in its undergraduate program. Since many new areas in business such as operations research and computer accounting systems require a good basic mathematical education, it is probably safe to say that most Canadian universities will be requiring more mathematics of their Commerce and Business graduates in the years ahead.

The professional courses in Canada are a different story: there is a considerable need at many Canadian universities to overhaul their business courses. Too many programs teach descriptive materials and specialist skills to their students; too often these skills centre around the accounting area and related subjects. This may be good preparation for C.A.'s and certain staff jobs, but the emphasis is questionable if the purpose of business education at the university is to educate a student in the administrative or managerial viewpoint.

Both reports state quite definitely that the logical way to teach business administration is by a problem-solving approach that emphasizes the managerial view-point. This can be done in different ways: two universities with the same goal can use vastly different means to reach this end. Neither report makes any attempt to assess how this should be done.

Business on the Campus

Business education has its faults, as these reports make abundantly clear. But this, far from leading to the conclusion that there is no place for business on a campus, should lead to intensified efforts to do a better job in business education. Taken out of the context of the total university environment, both reports appear unduly pessimistic about the whole subject of business education. Anyone who is familiar with colleges and universities will realize that no school or department is perfect. Studies equally devastating in their criticism could no doubt be made in other areas of the university community. It was the mushrooming numbers of business school graduates that provoked the concern which resulted in the initiation of these two studies.

It is interesting to note that British universities, where business education has long been notable by its absence, may soon be establishing degrees in business. A report, published in Britain last year by the Advisory Committee on Further Education in Commerce,[3] strongly recommended the establishment of degree commerce courses composed of substantial numbers of non-business subjects. To quote, "This would not be a retrogressive step, but one in the right direction, since it has long been clear that British commercial education, even of the most elementary kind, is falling behind the needs of the times . . ." This report provides yet one more answer to those university dons who fear an "undue" expansion of universities and standards. "A lot of the commercial training . . . should be provided through an expansion of university facilities and the establishment of pass degrees in commerce . . . variety should be the keynote—but it should run right up to and unsnobbishly merge with, university degree work"

While there is by no means complete agreement with this, the report certainly indicates that Britain is doing some needed reappraisal of the position of this type of education. This particular report believes that it is definitely needed if Britain is to maintain its status as an industrial and trading nation; it specifically cites the need for training in such areas as marketing and sales management. Business education is not only here to stay, it appears to be spreading to older countries and older universities.

[3] *The Economist*, p. 1059, March 21, 1959.

Conclusion

To conclude, it appears that business education at most institutions can stand some upgrading. This, however, will require a great deal of time and money. The latter, which is of crucial importance, is treated rather lightly by the critics of contemporary business education. Notwithstanding this, many schools could make their programs more dynamic and stimulating by the simple process of challenging their students. As Gordon and Howell say in *Higher Education for Business*.

"In general, business courses can be taught with any one of three kinds of emphasis, which can be called the descriptive, the analytical, and the managerial-clinical. Present practice in the undergraduate schools is to concentrate too much on a purely descriptive approach, in which fairly detailed subject matter is presented to the student, who possibly absorbs and regurgitates it on examination . . . what is needed is a combination of the analytical and the managerial-clinical . . . the student needs to acquire a command of systematic knowledge at as high an analytical level as he can handle and then be made to put this knowledge to use in problem-solving situations that will help him develop the basic skills that he will need as a business man—by clinical teaching we mean the use of cases, problems, role-playing and other types of assignment that will give the students some limited experience in dealing with the kinds of problems he will encounter in the business world."

WHERE CREDIT IS DUE

Advertising is the extended voice of a person with something to tell as well as something to sell. Its goal is to perform an intelligent and effective service in the distribution of goods or the rendering of services.

Every year or two, campus liberals discover that advertising is a form of economic waste which should be converted into a saving for the consumer. Certainly there is nonsense, bombast, and half-truth in some consumer advertising. In competitive selling, word meanings may be strained beyond their ethical limits. But the principal waste in advertising is the result of the ineptness of the man using it as a tool without knowledge of the craft.

The value rendered by advertising media as a source of communication is incalcable, and, despite errors in judgment by principals and agencies, there is a fundamental economy in advertising by which an expanding market reduces rather than increases the unit cost of products. Beyond this is the informational and educational service which good, tested advertising renders. Advertising at its best is a dynamic influence on the whole cycle of processing and distribution, and it is one of the proven incentives for the natural and continuous growth of the economy.

—*Dun's Review and Modern Industry*

The Radcliffe View Of Monetary Policy

— a Canadian commentary

Professor McIvor outlines two of the crucial sections of the Radcliffe Report, the influence of monetary measures and the management of national debt. According to the author's analysis of these interest rates rather than the supply of money are the real key to monetary measures; and the appropriate management of national debt is essential to the achievement of the rate changes necessary.

R. C. McIvor

There is much to be said for reminding ourselves occasionally of even the simplest facts of economic life, the significance of which is frequently overlooked precisely because they are held to be self-evident. Thus it merely emphasizes the obvious to say that if private business is to be conducted successfully in to-day's complex environment, its management must be able to cope successfully with problems both internal and external to the enterprise. It is the latter category to which I wish to draw particular attention, and in particular to suggest that the effective handling of these external problems depends upon the comprehension, by management, of the basic forces which shape the economic environment in which the enterprise must operate, upon management's ability to foresee their probable direction of change (i.e., to evaluate economic trends) and to evaluate the significance of such changes for their particular business. These are indeed formidable requirements, but in ever-increasing measure they are crucial to the continuity and success of the enterprise.

Perhaps slightly less obvious but none the less valid is the proposition that among the major forces that condition the broad economic 'climate' at any time is the nature of the government's monetary policy. The influence of monetary measures is all-pervasive, gradually penetrating every sector of the economy, and the business man concerned with the formulation of intelligent managerial decisions can ill afford to be illiterate in this particular area. He should therefore welcome, and perhaps be increasingly persuaded to contribute to, the intelligent public discussion of monetary issues, of which there has been a great deal in recent months. It has long been apparent that substantial differences of opinion prevail with respect to the proper scope or content of monetary policy, to its techniques and to its effectiveness, but the exchange of informed opinion has done much to clarify the issues. The main purpose of this article is to present and assess the substance of the recently-published Radcliffe Report on British monetary policy since the end of World War II and to contrast its findings with the Bank of Canada's basic approach to the exercise of monetary control in this country.

ORIGIN AND SCOPE

In April, 1957, amid strong inflationary pressures, the British Government appointed the Radcliffe Committee "to inquire into the working of the monetary and credit system, and to make recommendations." The subsequent Report[1] embodies the first comprehensive review of the British financial system in 30 years, and although set within the particular framework of the British postwar economy, its general analysis of the role of monetary policy in

[1]*Report of the Committee on the Working of the Monetary System* (London: Her Majesty's Stationery Office), August, 1959, Cmd. 827. All numbers enclosed in brackets in this paper refer to the relevant paragraphs in the Report.

combatting economic fluctuations has stimulated widespread and instructive discussion. Canadian readers seriously interested in monetary affairs can find many valuable insights into the possible effectiveness and limitations of what in recent years has become their government's foremost, although frequently disavowed, instrument for economic stabilization.

In its general introduction, the Committee noted that monetary policy must always represent just one of several or many components of government economic policy, because monetary measures taken by themselves can never be expected to achieve an adequate influence on the aggregate demand for currently-produced goods and services "unless applied with a vigour that itself creates a major emergency" (980). General economic policy must therefore comprehend not only monetary measures but fiscal measures and direct controls, but it should be noted that "there is no prescription which determines the proportion in which at any one period these measures should be combined" (980). The Committee therefore thought it undesirable to attempt any *general* study of the causes of inflation and its cure, viewing its main task as that of description and exposition rather than one of prescription. It has been accused by its critics of taking an unduly narrow interpretation of its terms of reference, a doubtful ground for argument. The Committee focused its attention on a range of important issues relating almost exclusively to monetary policy—its techniques, its possible effectiveness and its limitations. It is therefore true that readers seeking broad guideposts for government action in coping with inflation and recession will be disappointed, but the Committee can scarcely be justifiably criticized for declining to investigate matters considered outside its scope and in practice ruled out because of severe limitations of time imposed upon the Committee.

The background summary of the main characteristics of the British economy since 1946 will be strikingly familiar to those who have studied the Canadian scene during the same period—relatively full employment, a continuous growth of real production and income, a precarious balance-of-payments position and recurring inflation, the last associated mainly with a sustained high level of capital investment in excess of the country's willingness to save in order to finance these outlays. There follows a brief summary of the commonly-accepted objectives of monetary policy—to assist in achieving a high and stable level of employment, a stable price level, steady economic growth and, particularly for Britain, a stronger balance-of-payment position. The Report then continues with an outline of how the public sector of the British economy (the central government, the local authorities, and the nationalized industries) is financed; all of which reminds us that the government's financial requirements are directly related to the management of the national debt and may, therefore, from time to time interfere seriously with the exercise of effective monetary control within any country. To complete its descriptive background, the Committee provides an outstanding contribution in its detailed exposition of the structure and operation of the present-day British financial system. The highly-specialized functions performed by the various private institutions—the joint-stock banks, discount houses, accepting houses, insurance companies, building societies, hire-purchase companies, and others—and their relationships with the monetary authorities (the Bank of England and the Treasury) are all explained with admirable clarity. The Bank of England, as the centre of the whole complex financial mechanism, is appropriately accorded special attention, with its organization, status and operations being extensively analyzed in several sections of the Report.

It is against this comprehensive descriptive background that the crucial sections of the Report are developed in three analytical chapters which deal successively with the influence of monetary measures, the management of the national debt and the international aspects of the monetary system. I shall direct my main comments to the findings of the Committee in the first two of these areas, for it is there that the findings of the Committee have aroused the greatest controversy.

INFLUENCE OF MONETARY MEASURES

The Report has not been enthusiastically received in central banking circles, either here or abroad, because it expresses serious reservations concerning the short-run effectiveness of conventional monetary techniques in coping with inflation. Noting that any such effectiveness lies in the impact upon the aggregate demand for real goods and services, the Report accordingly asserts that the authorities must direct their attention not just to the "supply of money" but to the "entire liquidity position" of the economy. This is so because it is the "whole liquidity position that is relevant to spending decisions" (389) and because the economic significance of the supply of money lies entirely in its contribution to this overall liquidity. In other words, it is not the "supply of money" that represents the critical factor to be controlled by the monetary authorities.

By way of developing this proposition, the Report notes that "a decision to spend depends not simply on whether the would-be spender has cash or

'money in the bank', although that maximum liquidity is obviously the most favourable springboard. There is the alternative of raising funds either by selling an asset or by borrowing, and the prospect of a cash flow from future sales of a product both encourages commitment beyond immediately-available cash and makes borrowing easier. The ease with which money can be raised depends on the one hand upon the composition of the spender's assets and on his borrowing power and on the other hand upon the methods, moods and resources of financial institutions and other firms which are prepared (on terms) to finance other peoples' spending" (389).

Stated more concisely, all decisions to spend are influenced by the liquidity of the spenders, which is in turn determined not by the amount of money in existence but "by the amount of money people think they can get hold of, whether by receipts of income, . . . by disposal of capital assets or by borrowing" (390). Thus if monetary controls are to achieve their maximum results, they must be directed toward influencing the decisions of "all those groups of institutions whose behaviour seems to bear in an important degree on the amount of liquidity . . . in the economy" (392), rather than toward the money supply alone.

There is of course no disputing that if monetary policy is to succeed in restraining inflation, it must come to grips with over-all liquidity. The controversy centres on just how this can best be accomplished: how, for instance, in a period of serious inflation, can the liquidity of the economy be reduced? The orthodox approach has been to concentrate attention on the behaviour of the money supply. Money, the most liquid of all assets, is regarded as the basic component in total liquidity, and the immediate aim of the restrictive monetary policy has therefore been to tighten the money supply, the consequences of which will be (so it is hoped) to induce a general reduction of liquidity throughout the economy. This has been the approach consistently adopted in this country by the Bank of Canada (examples of which may be found during the 1955-57 boom and since mid-1958), and the Governor of the Bank has asserted that the influence of its monetary measures arises "from the operations which the Bank undertakes in order to affect the supply of money."[2] In brief, by affecting a tightening of bank credit and by the rise in interest rates which follows, with consequent encouragement to saving and discouragement of marginal investment, the Bank of Canada hopes to achieve the desired reduction in over-all liquidity.

[2]Bank of Canada, ***Annual Report***, **1956, p. 46.**

In the view of the Radcliffe Committee, this particular approach to monetary control is doomed to failure and is therefore rejected in favor of measures designed to strike more rapidly at the liquidity of spenders. The Report argues that "the authorities . . . have to regard the structure of interest rates rather than the supply of money as the centre-piece of the monetary mechanism. This does not mean that the supply of money is unimportant, but that its control is incidental to interest rate policy" (397) because "movements in the rate of interest have a central part to play in bringing about changes in liquidity" (385). This prescription is in sharp contrast to Bank of Canada policy which, again in the words of the Governor, "is to manage the supply of money, that is, the total amount of currency and bank deposits."[3] The Bank has always made it clear that in its view, "the establishment or maintenance of any particular level of interest rates is not an objective of central bank policy."[4]

The Radcliffe Report rejects the "supply of money" approach because *bank* credit represents just one part of a comprehensive and well-integrated *total* market for credit. The Committee found that when necessary borrowers were quite ready to switch from accustomed to new sources of funds and that similarly while particular types of British financial institutions might have their preferred types of lending, there did not appear to be any hard and fast lines drawn "between the supply of short finance and the supply of long finance" (125). The Committee therefore argued that, with such a high degree of substitutability among the various sources and uses of funds, monetary policy directed to restraining merely one particular form of credit (bank deposits) would necessarily fail to curb total spending because alternative sources of funds would always be readily available. Discriminatory control of bank lending is therefore not recommended except in times of grave national emergency.

Because of the multipicity of credit sources which characterizes the British financial structure, the Report asserts in one of its key findings that if money, i.e., bank credit, becomes more scarce (let us say because of central bank pressure on commercial bank reserves), interest rates will rise, "but they will not, *unaided rise by much, because in a highly developed financial system* . . . there are many highly liquid assets which are close substitutes for money, as good to hold and only inferior when the actual moment for a payment arrives" (392). In other words, a relatively small rise in interest rates will be a sufficient inducement for savers to turn over their cash balances to borrowers,

[3]*Ibid.*, p. 49.
[4]*Ibid.*, p. 49.

and the implied increase in the velocity of circulation of money will defeat the ends of any monetary policy concerned merely with restricting its quantity.

The decision to make control of interest rates its centre-piece of monetary policy is based on the Committee's finding that rate changes may influence spending in two possible ways. First, they may change the incentive for making investment expenditures; but the Committee could find little evidence from British postwar experience that this potential "cost" effect, operating to restrain potential spenders, had been of any practical significance. (On this point, the Committee heard oral evidence and received written briefs from a truly staggering number of witnesses representing a thorough cross-section of the economy; and the testimony of business spokesmen, from organizations large and small, can be read with profit and interest by their Canadian counterparts.). The weakness of the "cost" effect of changes in interest rates was particularly relevant to the short-run, "whether it is short rates and commodity stocks or long rates and constructional works that are in question" (386). Thus, it was the second effect, the "general liquidity" effect of rate changes, i.e., their effect on the "availability" of funds to borrowers, that was found to represent the potentially powerful instrument of monetary control. By way of explanation, the Report reminds us that "provided that it is not confined to the short end of the market, a movement of interest rates implies significant changes in the capital values of many assets held by financial institutions" (393). It is therefore claimed that a rise in rates will make many of these institutions less willing to lend, because of the loss involved in liquidating assets whose market values will have fallen, while conversely, a fall in rates will increase their willingness. Given the basic premise that "the level of total demand is influenced by the lending behaviour of an indefinitely wide range of financial institutions, and not just by the supply of money" (394), it follows that "if they could be uninhibited in their manipulation of interest rates, the authorities would have powerful influence on the entire liquidity position" (396). But, as we have already been told, it is not likely that in a highly developed financial system market forces *unaided* can cause much of a rise in interest rates as money is tightened; so the question is just how rate changes of the magnitude required to produce the necessary liquidity effects can be brought about. For the Committee, the answer lies in the appropriate management of the national debt, "an instrument of singular potency" (982).

MANAGEMENT OF NATIONAL DEBT

It is a fact that all debt transactions have monetary repercussions, but in the words of the Report, "it is not merely that monetary action and debt management interact so that they ought to be under one control: they are one and indivisible; debt management lies at the heart of monetary control . . ." (603). What the Committee wishes to emphasize is that the economic impact of transactions in the public debt is both all-pervasive and inescapable and that the management of the debt should therefore be harnessed to achieving rather than obstructing the ends of national economic policy. Accordingly, the authorities "must have and must consciously exercise a positive policy about interest rates, long as well as short, and about the relationship between them" (982). In its less harried moments, the Canadian government has recognized that sound debt management is an essential ingredient of national economic policy. The Bank of Canada, it should be noted, is both the government's debt manager and its monetary manager, and the possibility of a conflict in objectives is always present. Since 1946, there have been several occasions on which priority accorded to debt management (i.e., the Bank's early postwar support of bond prices; its financing of the large-scale federal deficit in 1958 in the face of an unexpectedly rapid rate of economic recovery) has deprived the Bank of the ability to exercise effective monetary restraint. Despite his recognition that government debt policies do therefore affect the total credit situation, the Minister of Finance is nevertheless able to assert that "the Government of Canada has no power or control whatsoever over the money supply. It cannot increase it, vary it or decrease it . . ."[5] This kind of disingenuous pronouncement does little to further public understanding of the issues.

Given the financial requirements of the government, the Radcliffe Committee notes that the aim of debt management must be to find "an interest rate structure that will ensure the desired structure of the debt" (561), the latter depending, of course, upon what is regarded at any time as the most appropriate total liquidity position for the private sector of the economy, as well upon the views of the authorities concerning the probable general availability of capital in the economy over a somewhat longer term of years. In the view of the Committee, it is because of the government's unduly great preoccupation with immediate economic circumstances and the necessity of adopting *ad hoc* measures to deal with them, that the postwar structure of British debt has been of undesirably short maturity and high liquidity. Thus, the way to moderate effectively the pressure of demand for goods and services is to initiate a sufficiently large movement in interest rates and to see that these reach the longer-term markets. As the Report puts it, "an

[5]Minister of Finance, *Speech to the Empire Club of Canada,* Toronto, October 8, 1959, p. 6.

argument for more effective use of the interest rate weapon is an argument for widely fluctuating rates" (488), in order to bring about the required changes in capital values of securities. When, however, for the 1960's, the practicability of in fact introducing much larger swings in long-term rates is considered, it is most disappointing to find that such a course is regarded as "probably impracticable and certainly so disadvantageous as to warrant our ruling it out as a general line of policy" (489). In other words, the only kind of monetary policy capable of effecting the desired results in the economy proves to be unacceptable in practice! This is because very wide and abrupt swings in the capital values of securities would seriously disrupt the capital market by weakening the intricate and highly developed network of financial institutions, which assume that government bonds are relatively stable assets and acquire them on this assumption. It turns out in the end, therefore, that greater effectiveness of monetary policy must be sought through an improved structure of the national debt, but one which can be achieved within the limits of conventional fluctuations in interest rates. It is for this reason that the Report is inclined to place relatively less emphasis than has become customary on the role of monetary control and accordingly to indicate greater reliance upon fiscal and other measures.

THE CANADIAN SCENE

The Report will inevitably cause its Canadian readers to wonder just how it is that the Bank of Canada has found to be most appropriate within the Canadian economy precisely the kind of monetary policy (i.e., the regulating of the money supply) that the Radcliffe Committee rejects as being completely inadequate and ineffective within the postwar British financial environment. In this connection, it may be worth suggesting that the role of financial intermediaries in aggravating the difficulties of monetary control (by effecting undesirable increases in the velocity of circulation of money) is much less troublesome than in the British economy. Because of the relatively much greater importance of chartered bank credit (over which the Bank of Canada can exercise reasonably effective control) in the short-term market, and because of the well-established lending policies of other financial institutions in the capital market (policies reinforced on occasion by the 'moral suasion' of the Bank), the very high substitutability, both of the forms and sources of credit, which characterizes the British scene is not found in this country. Thus the Radcliffe argument that tighter money cannot succeed in curbing spending because of a continuous and unimpeded rise in velocity of circulation appears to be of doubtful validity in the Canadian environment, and the Bank of Canada through its control of the chartered banks' cash reserves and therefore of their lending, has been able to achieve a much greater control over total liquidity in the Canadian economy than would be possible by such methods in Britain.

Beginning in 1950, monetary policy became the major instrument employed by the government in its efforts to minimize economic instability in this country, and its indispensable role has been effectively demonstrated. This is not to say, however, that the practical limitations on the timing and scope of Canadian monetary measures can be lightly dismissed. Concerning the difficulties of timing, it must be borne in mind that "no one, particularly in the early stages of a boom, can choose some particular moment at which to decide that inflationary dangers are present without doubt and in dangerous degree—The question at issue is always one of degree and of the probable continuation as well as the direction of discernible trends."[6] Here sound judgment will obviously be furthered by continuing the development of a broader and more timely range of current economic data.

Apart from the difficulties of timing, the effectiveness of Canadian monetary policy is restricted by other factors. Some represent weaknesses in the technical aspects of monetary control, inasmuch as they affect the promptness or the degree of restraint attained. Others arise *because* of the technical efficiency of monetary instruments and reflect the consequences of their successful operation. One example of the former difficulty is the excessive liquidity of the chartered banks during 1955 when, in a period of growing inflationary pressures, they were able to sell off large amounts of their short-term securities to finance a rapid rise in lending to the business sector, at a time when the Bank of Canada was striving to stabilize the total volume of money in the economy. Another such difficulty arises because there are various sources of credit, other than the chartered banks, that are available to Canadian borrowers, among the most important being external sources, notably from the United States. The degree of monetary restraint which can be maintained in this country is at all times conditioned by our proximity to the American capital market. A relative rise in the level of Canadian interest rates leads to a large inflow of short-term funds from the United States, one effect of which is to strengthen the Canadian dollar in foreign exchange markets and thereby to aggravate the problems faced by our export industries.

Concerning the second type of difficulty, that arising because of the success which our monetary

[6]See the Bank of Canada, *Annual Report,* 1956, p. 23.

measures do achieve, the impact of a credit "squeeze" is inevitably uneven over the various sectors of the economy, and discrimination against small business is unavoidable. There is therefore some substance to the view that severe monetary restriction is a "magnificent instrument for promoting (economic) centralization.[7] It is simply inherent in the operation of monetary restraint that the greater the degree of success achieved, the louder the opposition from the increasing numbers of unsatisfied borrowers who allege discrimination. But to avoid such an outcome by rejecting monetary restraint is inconsistent with the objective of containing inflation, where the basic question is not "whether" to curb excess demand, but "how". The justification for placing major reliance on the market process of allocation is that its impersonal operation will involve less discrimination than any alternative method. The non-selectivity or the generality of monetary policy of course presents problems in coping with recession and unemployment, just as it does with inflation, and in a series of recent observations on the state of the Canadian economy, the Governor of the Bank of Canada has appropriately cautioned against the dangers of attempting to cure by monetary expansion problems of unemployment which are specific to particular sectors of the economy and which arise from structural or other difficulties best attacked by other means.

It nevertheless remains true that, despite the difficult problems encountered, monetary policy will in the foreseeable future retain its place as one of the most promising approaches to minimizing instability in the Canadian economy, and a greater understanding of its essential nature, its techniques and its impact can contribute much, not only to the businessman but to all others who are interested in developing a broad perspective of Canada's ever-present and ever-changing range of economic problems.

[7]J. K. Galbraith, "Are Living Costs Out of Control?", *Atlantic Monthly*, April, 1957.

PERFECTING THE PENSION SETUP

"When a person's working life is spent with a number of different employers, it is often the case that final pension entitlement is small or negligible, even although there has been pension coverage during the whole of service. The reason is that pension rights which are earned are not preserved when jobs are changed."

With that comment, President W. M. Anderson of North America Life Assurance Co. neatly skewers a big part of the number one problem in the present system of employee-employer pension plans. It's this: How to achieve greater continuity of pension rights; how to make pensions "portable".

He believes that company plans should discourage departing employees from converting pension credits into cash. He apparently believes that pension credits for employer contributions should be made even if the period of service has been short—on the grounds that pensions are not gratuitous reward for long service but are, instead, deferred compensation for all service.

These are views of a responsible expert in private pensions and old age security problems. They deserve serious consideration in corporate quarters.

This is in industry's own self interest. The more numerous and the more comprehensive private plans for thrifty individuals, the less likely is Ottawa to hustle the economy into devastatingly expensive additions to social security programs.

—*Financial Post*

BUSINESS IN THE COMMUNITY

The role of the businessman in our society has become increasingly complex and ill defined. The following article considers the extent of some of the businessman's responsibilities to his community and suggest that, as a trustee for our society as well as for shareholders, his prime role is that of a skillful business manager.

RONALD S. RITCHIE

Two somewhat contradictory facts characterize today's relationship between businessmen and the community. On one hand, businessmen are much involved in the community—they head fund raising drives, sit on governing bodies and sub-committees of hospitals, universities, and welfare agencies, aid the financing of education, and express opinions about what should be taught. On the other, there seems to be no common understanding or agreement in the minds of either businessmen themselves or of the community at large as to what the community should expect from business or what businessmen owe the community.

On one side, business is lectured by governments, newspaper editors, labour leaders, and university professors about its duty to combat inflation by keeping prices down, its duty to maintain employment by avoiding lay-offs, and its duty to counter recession by raising wages. On the other, the conscientious business executive finds it extremely perplexing to determine in cases of apparent conflict where duty lies between the interests of the shareholder—to whom he has a reasonably clear responsibility—and the interests of the community, to which he has a less well-defined responsibility. He finds few agreed and reasonably clear guides to a proper division of the working time and energy of executives between community projects and the business itself, or to the share of its income which the firm should allocate to worthy community purposes—to mention only two questions which are constantly up for decision in the business world today.

Closely related to this uncertainty, perhaps at its roots, is one of the great debates of our time. Within business, and in academic and political circles outside it, the view is being insistently advanced that business has important social responsibilities, that social justice and corporate good citizenship should today be at least as important guides to business decisions, large and small, as is the profit test. Reduced to its essentials this debate rests on an assumption, not usually put to any searching examination, that the tests of profit and of the market place no longer lead generally to actions which are in the common interest. This is an assumption which the community, and businessmen in particular, accept at their peril. It not only challenges—indeed, it would destroy—the corner stone of our economic and social system. The tests of profit and the market place were never conceived as ends in themselves, but only as guides and directors of our economic activity. There is nothing new in the objectives of social justice and the general welfare. Only the means are in question. Clearer thought may well suggest that the best guide to corporate good citizenship is still rational evaluation of the long-run interest of the corporation as measured by the tests of the market place and of profit.

This crucial debate is frequently complicated by an additional unwritten assumption. There is today among some academics and politicians a disturbing habit of charging business with responsibility for a range of decisions about social capital and other questions which are important to society as a whole. Such decisions are of a kind which should be largely taken outside the business arena. All too often businessmen appear to accept the responsibility thus verbally thrust upon them—at least they do not deny

responsibility. It is an easy but unwarranted step from such allegations of responsibility to charges of neglect and to the corollary that the tests of the market place and of profit are obviously obsolete in the world of today. We would be unlikely to make such errors in the physical sciences, where clear thinking seems both more natural and easier. Society certainly has a responsibility to make decisions about schools, highways, art galleries, social welfare, and the national defence; to choose between more or less of these things and less or more of private consumer goods and recreation. Businessmen may have views about such questions which are relevant and worth taking into account, but this is not a sector of social decision where businessmen are the decision-makers or the profit test the guide to the desirable allocation of resources and efforts. The primary function of business and businessmen is endangered if the limits of the function are not clearly and continuously emphasized.

Against this background, the responsibilities of the businessman to the community can be usefully examined under the following three headings:

- the interest of the community in how well the businessman performs his job as a manager;
- the interest of the community in the contribution which businessmen can make to fundamental social decisions of the day;
- the interest of the community in the extent and the form of business participation in support of community activities.

It soon becomes evident in such an examination that businessmen have a stake in the answers to these questions which is parallel and complementary to that of the community. It becomes evident too that there is a clear link between the particular skills of the businessman and what society should expect of him.

THE BUSINESSMAN AS MANAGER

The most important claim which the community should make of the businessman is that he be a good business manager. His is an economic function, and the test of how well it is performed must be an economic one. Many persons contribute to the economic welfare of the community. But no other group is so critically placed to affect that economic welfare for good or ill as are business managers. Even in this day of major economic effects from the words and actions of governments and labour unions, busines managers, through their multiple attitudes, policies, and decisions, almost certainly exert more influence on standards of living than does any other group.

In this sense, and in an even broader one, the business manager is a trustee for the society of which he and his business organization are parts. The idea that the manager is a trustee for the shareholder is a familiar one. The idea that he holds and administers assets and resources in trust for society as a whole is less commonly held. Yet trustee he is. We have only to remind ourselves that in Canada, as in the world at large, the scarcest economic ingredient is capital. At home this scarcity is reflected in Canada's heavy reliance on outside funds and in interest rates which are higher than those in the United States. Abroad it is reflected in the almost limitless capital requirements of the developing nations.

Neither shareholders nor society can afford the waste of capital by its unwise use—that is, by poor business decisions. The skill of the business manager, and his responsibility, is to combine human and material resources to the greatest economic effect. Only by good business management can the businessman serve both his enterprise and the community well. In any but the most short-sighted view the test of his performance should be the same in the eyes of both the community and the owners of the enterprise.

Good business management is no easy responsibility. The skills needed grow increasingly complex. In a market economy such as ours, idle capacity and plant shutdowns reflect both the difficulty and the essentiality of assessing and forcasting complex economic forces, domestic and external, if capital and other resources are not to be wasted. Production techniques change with such rapidity that obsolescence of products, of equipment, and of skills is a continuing threat to most enterprises. Vision and skill in labour relations, government relations, and public relations may be as essential today to survival of the enterprise as is competence in evaluating markets, managing capital investment, arranging finances, or supervising production processes. To all of these demands, the business manager must now add the prospect that the electronic computer and recent major break-throughs in information theory may mean that past wisdom and past techniques will no longer serve in the business decision-making of the future.

Good business management, then, whether conceived to be in the interest of the firm or in the interest of both the firm and the community, demands a wide complex of skills, a broad rather than a narrow perspective, the long rather than the short view, and a great deal of hard work. Inadequate business management or irresponsible business management can cost both the firm and the community dearly.

While the community has the right to expect the businessman to be good at his job, it should in its own interest ask something more. It should look to him to make a contribution, out of his special competence, to the debate—continuous in our society—on a wide variety of fundamental social, economic, and political questions. These questions have their origins partly in technological change, partly in a questioning of old values. Many have important economic implications. The businessman is immersed in the economic system and should be able to make an intelligent contribution to much of the decision-making of the community. The community should expect him to do so.

Three current and rather unlike questions may illustrate this point. One concerns the future of our present economic system itself, a second the length of the work week, and the third the objectives of our school system.

The strengths and weaknesses of our economic system—the enterprise system—are, by general consent, crucial to our economic and perhaps our political well-being. The values of the system have been critically examined over the years and will continue to be. The system is being continuously modified—by legislation, regulation, taxation, and subsidy; by labour, professional, and industrial combinations; and by changing social attitudes.

Unless there is continuing and deliberate emphasis upon what is fundamental to the system, this inevitable process of change involves serious risks. The businessman has a major responsibility here to the community as well as to his own firm. It may seem to be the expression of only a narrow class interest to say that the businessman should strive for a climate of public opinion, legislation, and business practice in which business enterprise can best achieve its economic objective. In reality, it is in the interest of both the community and the businessman that this should be accomplished. To discharge this responsibility, businessmen must provide public leadership in thought and in action. They must be prepared to explain to governments, to their own employees, and to the public how the enterprise system works and why society collectively has a stake in conserving it. They must rigorously discipline themselves whenever it appears to them that their own interests might be served by some tampering (public or private) with the principles of the enterprise economy which they support.

To be able to explain the enterprise system businessmen must thoroughly understand it—from the standpoint of society's interest. They must understand current social and political thinking, and their mainsprings, so that they are better able to demonstrate to an inherently suspicious public that the price mechanism and the economic motive (of which the profit motive is only a special part) are in society's interest, not in a class interest. As never before businessmen must study our society—both its history and its current trends. This is a role which most businessmen have left to the academic scholar or the politician.

Businessmen must be willing and able to put public and industry policies (including their own) to this test: Are these policies consistent with maintaining the values of the enterprise system?

This calls for both insight and foresight. Easy acceptance of unwarranted labour demands, for example, may be just as destructive in the long run as stubborn refusal of more reasonable requests. Undesirable legislation may sometimes result from short-sighted business practices, at others from short-sighted business requests for special help. In still other cases, it is simply the result of inadequate public understanding of the real implications of particular legislative or government action, a misunderstanding which foresighted business leaders, properly aware themselves of the foundations of our economic system, could help to prevent or correct in advance.

The task suggested here for business leaders is no easy one. No person or group can have a completely objective understanding of the complex and changing enterprise system. The task of understanding and conveying understanding is more difficult because it is a system built on reconciling an apparent conflict between individual interest and the good of the group (just as is our political democracy in an imperfect but, on balance, satisfactory fashion). The business leader can keep himself up to date on questions of legislation and regulation which are relevant to his firm, his industry, or the economic well-being of the nation. He can make his views known to other businessmen and he can, individually and in association with others, make representations to public bodies. The business leader can further understanding in an important way: by responding to the natural interest of his own employees in their company and industry. Many firms use a variety of information media: employee publications, specially annotated annual reports, employer-employee forums, and employee letters on both company and public issues.

Contributions of this kind to the continuing public debate on our economic system discharge a responsibility of the business leader both to his firm and to the community. As a member of one group with special knowledge and experience in the field,

the businessman should be expected to make such a contribution.

This suggested responsibility is closely related to the current debate in Canada and the United States about the wisdom of businessmen and corporations participating more directly in the political process. It is not intended as an argument for such a course of action. It is one thing to suggest that business managers have a special competence to comment on questions which concern the working of the economic system. It is quite another to suggest that it is wise or desirable for them to participate directly in partisan political processes involving such issues. Certainly businessmen whose managerial competence is combined with breadth of knowledge and perspective can contribute to the debate on such topics. They can and should, for both short-term and long-term reasons of corporate interest, ensure that their own employees have a reasonable understanding of economic forces which are important to the enterprise. On the other hand, any attempt by businessmen, acting in their corporate capacities, to influence the voting choices of their employees or of the public at large in specific election situations is almost certain to be resented and therefore to achieve an adverse reaction. This truth is not altered by citing certain trade union actions to the contrary. The most effective contribution of the businessman is to help provide the ingredients for choice in fields where he is competent and to do so at the administrative level, the legislative level, and the level of public opinion. This in itself is more than a sufficiently challenging task.

The second illustration of a significant social question mentioned above—the length of the work week—is of a rather different order. At first sight the length of the work week might not seem to require much consideration outside labour and management circles. Yet it seems evident that productivity in our North American economy may shortly reach the point where an important part of further improvements will be desired in the form of more leisure. Many are already talking of the 30-hour week. But the 30-hour week can be achieved in more than one way. We have a choice between fewer hours per day or an average of fewer days per week—achieved through longer week-ends (every week or periodically), longer vacations (every year or at intervals), or more holidays during the year.

The answer we choose is important, not just to the business enterprise, but to the community, because of differing effects upon productivity and upon the real additions to leisure time. There are, for instance, powerful arguments against a substantially shorter working day than that we now have. Starting and stopping cut into productivity relatively more in a six-hour day than in an eight-hour day in most operations. Getting to and from work is proportionately more burdensome in time and energy as the working day is shortened. These are only two simple facets of what is, in reality, a complicated and important question for the firm, the individual, and the community.

The shape of our final answer should represent a gradually evolving social consensus which will have important repercussions for all of us. The decisions cannot be taken by businessmen alone, but the community needs the facts and the judgments business can provide as an essential ingredient in shaping the answers. Early debate is essential, as even now social attitudes are being shaped, perhaps without adequate appraisal of all the relevant considerations.

On our third question of the day—education—businessmen can again *suggest* at least some of the ingredients of the answers. On the assumption that the fundamental purpose of education is to contribute to competence in living, a most important determinant of the shape of education today must be recognition that no person lives and works now in the kind of world into which he was born, or in the kind of world which exists while he is at school. Education's most important purpose may be to fit him to deal with a changing world.

This is as true in the world of work as it is in the other worlds in which the individual's life is spent. New technology is constantly creating new jobs and modifying or eliminating old jobs. There are profound implications in this for the form and content of elementary, secondary, and university education. It is increasingly obvious that schools can't train a man *completely* for his career. A great many jobs demand further training-on-the-job, or special courses, when the man enters a specific industry. Sooner or later a philosophy will evolve for the division of education. We may well find that the schools should return to broader education while industries should provide more vocational training.

In this problem, too, the community's needs cannot be adequately measured without help from business. Nor can the needs of business be met without action from the community. Businessmen owe it to their own enterprises as well as to the community to foresee the effects that a changing technology and economy may bring. They should then work with community and educational leaders to adapt the educational system to these needs.

THE BUSINESSMAN AS A CITIZEN

Professional competence in his job plus participation and leadership in the economic and social debates of our time does not end the businessman's

responsibility today. He is expected as a citizen and often also as a representative of the firm to play a large role in community activities. How can the community's claim and his responsibility be defined in this field?

Ours is a pluralistic society. Many important functions in it outside the purely economic realm are carried on by volunteer groups. It is to the interest of all who are concerned with the health of our political democracy and of our enterprise system of economic organization that this should continue to be so. Many of these group efforts need some of the management skills which the business world itself requires. Both individual businessmen as private citizens and the enterprises which employ their working talents have some reason and responsibility to contribute to this need.

Similarly, our whole society has a stake in the continuance of private financing for a wide variety of educational, welfare, and community interest activities. Corporate enterprises have, too, an even longer-run interest than the average individual in the social and political climate of the community and in its facilities, activities, and attitudes. An objective appraisal of the short and long-run implications for the position of the firm itself will almost certainly suggest a course of financial support for many community projects. Thus responsibilities of business to community projects can be assessed validly in terms of the needs of the enterprise itself if they are put in proper perspective.

SUMMARY AND CONCLUSION

What emerges from this brief examination of the basis for a proper relationship between businessmen and the community? Certainly, no simple, easily-defined, or easily-discharged responsibility on the part of businessmen and their firms. Equally certainly, no haphazard, amorphous, or too-sweeping claim on the part of the community or any of its self-appointed authorities with causes to promote. What is suggested is a wider concept. Because businessmen perform a vital economic function in society, the community has a stake in how well they perform it. Because so many political and social questions are largely economic, businessmen have a contribution to make to their debate, and to the answers. Because so much of society's life is supported by voluntary, individual, and group efforts, and because the results of these efforts are often of direct concern in the short run or the long run to the business enterprise, these too are probably partly the businessman's responsibility.

The responsibilities of businessmen to the community, like those of other groups in our society, arise out of and may be defined by the basic function of business managers and business enterprises in our society. If these responsibilities are complex and diverse in our society today, they perhaps reflect the degree of penetration of economic influences in that society.

CAPITAL INVESTMENT — U.S. VS U.S.S.R.

Authoritative estimates indicate that as much as 35 to 40 per cent of the U.S.S.R.'s gross national product now goes directly into capital investment for plant and equipment—the tools of production. The comparable figure for the U.S. is between 15 to 18 per cent annually.

This huge build-up of capacity is made possible at the expense of the Russian consumer, who receives less than one-half of total output, compared with more than two-thirds for his American counterpart. Dr. Gabriel Hauge, Special Assistant to President Eisenhower, estimated per capita consumption in Soviet Russia at about one-fifth of that enjoyed here. The fact that new capital investment in Russia now amounts to about three-quarters of our own, in absolute terms, annually, should be a sobering consideration for lawmakers and everyone in the United States.

The following table from the "Annals" of the American Academy of Political and Social Science compares the economic growth and investments of the two countries.

Distribution of Capital Investment in the Post-war Period

	U.S.A.	U.S.S.R.
Industry	25%	50%
Agriculture	10%	16%
Transportation	10%	10%
Housing	25%	15%
Other	30%	9%

For metal and metal products alone, which is included in the industry classification, the U.S. capital investment was 10 per cent, against 21 per cent for Russia. Red Chinese gains have been less spectacular than those of the Soviets, but they are impressive too.

—*High-lights,*
American Economic Foundation,
November, 1959

Canadian Taxation and the Businessman

K. W. LEMON, F.C.A.

The "Baby Budget" persented to the House of Commons by the Minister of Finance on December 20th included a number of proposals designed "to encourage the most effective use of Canadian savings in the development, management and control of an expanding Canadian economy". These proposals included not only the provision of incentives for Canadian taxpayers to invest in Canadian securities, but also included measures intended to discourage foreign investment in Canada.

The change which will probably have the most important effect on foreign investors provides for an increase in the rate of withholding tax imposed on dividends paid by Canadian corporations to foreign parent companies. In the past the standard 15% withholding tax normally applied to dividends paid to non-residents of Canada was reduced in the case of payments to parent companies resident in certain foreign countries in accordance with the terms of reciprocal treaties entered into with the countries concerned. In the case of dividend payments to the United States and most other countries with which Canada has tax treaties, the withholding rate was reduced to 5% if the foreign parent company held 51% or more of the voting shares of the payor corporation. For United Kingdom parent companies no withholding tax was payable if the Canadian subsidiary was wholly-owned.

The new budget proposes that all such reductions in the rate of withholding tax should be discontinued so that all dividend payments to non-residents after December 20, 1960 will be subject to the full 15% rate of Canadian tax except where a lower rate is guaranteed by treaty. The Minister of Finance also indicated that the government intends to enter into negotiations where necesary to revise existing treaties so that withholding tax at the 15% rate will apply in all circumstances.

In the case of United States parent companies the increase in the rate of withholding tax to 15% became effective immediately as the governing treaty contains a provision permitting the termination of the reduced rate by either country without notice and the Canadian government has expressed its intention of effecting the termination as of December 21, 1960. The proposed increase in the tax rate applicable to dividends paid to parent companies resident in other countries, however, will not be effective until suitable amendments to existing treaties have been negotiated. As it is unlikely that any such negotiated changes would have retroactive effect, it can be assumed that (except in the case of payments to the United States) the lower rates guaranteed by the various treaties will continue to apply for the time being. In view of this situation it can be expected that Canadian subsidiaries of parent companies resident in foreign countries other than the United States will give careful consideration to the possibility of paying substantial dividends before the proposed treaty amendments become effective.

At the same time, United States parent companies will be calculating the effect of the immediate increase in the withholding tax on the available earnings of their Canadian subsidiaries. A United States company is normally entitled to a deduction from its United States tax equal to the lesser of the rate of American tax applicable to the dividend received (usually 52%) or the total of the Canadian withholding tax (now 15%) plus the Canadian corporation tax previously paid on earnings of the subsidiary (varying from 21% to 50%). Because of the lower rate of Canadian corporation tax applicable to the first portion of a company's earnings, in the case of subsidiaries with annual income of less than $100,000 most of the increased withholding tax will be recovered by the parent company through a deduction from the United States taxes otherwise payable on the receipt of dividends. For many Canadian subsidiaries with annual incomes in excess of $300,000, however, little if any of the additional withholding tax will be recoverable.

The effect on the economy of our country of the tax policies proposed by the "Baby Budget" will be watched with interest by the Canadian businessman.

Canadian Law and the Businessman

PETER V. V. BETTS

LAND USE CONTROL — PLANNING AND ZONING

Until he comes face to face with it, the businessman is inclined to think of Planning as something probably worthwhile, if not too practical, but in any event comfortably removed from his sphere of interest. Then perhaps he wishes to enlarge or move his plant and is told that he cannot because of zoning regulations. He thereupon finds himself in a world dominated by Planning Boards, Municipal Boards, Committees of Adjustment and Official Plans. Lurking in the background is the Professional Planner who has developed a jargon peculiar to the species. The experience can be bewildering.

Planning and Zoning has been criticised as legalized snobbery. On the other hand, it is defended as the only practical tool to protect property values in a country that is in the process of expanding. No doubt there may be a measure of truth in both assertions. They are not necessarily mutually exclusive. A brief examination of some of the problems involved may be of interest.

The term "Land Use Control" is used to include both Planning and Zoning. One phase of Planning is to divide a municipality into, say, four broad geographical areas—industrial, commercial, residential and park lands. This becomes part of the Official Plan and acts as a sort of constitution governing the development of the area, since it cannot be altered without fairly deliberate action. Having prepared the Official Plan, the municipality then proceeds to implement the Plan by a Zoning By-Law. This by-law might set up 5 or 10 different zones within each of the four broad categories above and define in detail what is to be allowed in each. For example, the Official Plan will show a large area as residential whereas the Zoning By-Law might break this down into Single-Family, Two-Family and Multi-Family Zones, and, of course, would provide penalties for infraction. Likewise, the Industrial Area would be broken down into Heavy Industry, Light Industry, and so forth. In each case, the Planning Board recommends, the Council enacts, and the Municipal Board confirms the Plan or the Zoning By-Law. Where the businessman, therefore, proposes to erect a Bank or Office Building in a Residential Zone or a Dry Cleaning Establishment in a Commercial Zone (Dry Cleaning Establishments are generally classed as industrial uses), he is asking for a change both in the Official Plan and in the Zoning By-Law. He will have to satisfy three tribunals twice; once to amend the Offical Plan and once to amend the Zoning By-Law. The Planning Board sometimes tends to be dominated by its Professional Planners. The Municipal Council sometimes adopts a somewhat pragmatic approach to the problem, and it is frequently accused of allowing matters of expediency to govern its decision. The Municipal Board exercises a supervisory jurisdiction across the whole Province, but it does not always give reasons for its decision and even when it does these are not published. The result is a general lack of certainty in the outcome. Furthermore, at each step there is the possibility of a public meeting whereat adjacent landowners will express their views somewhat forcefully. Perfectly sane and intelligent persons become almost hysterical when some unpopular use in the neighborhood is proposed, and occasionally a public meeting degenerates into something just short of a riot. Applications have been known to take three years. The delay and lack of certainty can be most frustrating and costly. On the other hand, it should perhaps be pointed out that Planning has no monopoly on delay and uncertainty, and the process does provide a means of accomplishing a job that is bound to hurt someone and accomplishes it within the framework of the democratic process.

Sometimes a proposed use is not mentioned at all in the by-law, or perhaps the boundary between two zones runs through the centre of a piece of property. In either case, one has resort to a tribunal known as

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BOOKS FOR THE BUSINESSMAN

Reviewed in this Issue		*Reviewer*
SECURITIES REGULATION IN CANADA	J. Peter Williamson	*J. C. Taylor*
PHYSIOLOGY IN INDUSTRY	Lucien Brouha, M.D.	*Craig Lundberg*
THE PEOPLE'S POWER	Merrill Denison	*J. G. Preston*
THE SCIENTIST IN AMERICAN INDUSTRY	Simon Marcson	*Craig Lundberg*
NEW FORCES IN AMERICAN BUSINESS	Dexter M. Keezer and Associates	*J. G. Preston*

SECURITIES REGULATION IN CANADA

by J. Peter Williamson, published by The University of Toronto Press, 1960, 463 pp.

No one at all familiar with the complexities of securities regulation could fail to be impressed with the way in which information collected from far-flung sources has been assembled in "the first comprehensive study of the subject as far as Canada is concerned." In the preface the author says that the book is intended to serve the needs of both lawyers and those in the securities business. Some parts of it, in particular chapters 1, 10, 11 and 12 entitled respectively, The Development of Canadian securities law, Regulations within the industry, Securities underwriting in Canada, and Selling securities in the United States, should attract a much wider audience.

This reviewer hopes, primarily, that the second purpose of the book, as stated by the author, will be fulfilled. Sincere and strenuous efforts to find solutions for the problems arising from lack of uniformity, unnecessary complications and serious deficiencies in the law will be made only when the community demands such action. Few who examine this book will be left unaware of the need for reform.

In a section about uniformity and administrative cooperation among the various jurisdictions the author says, "there has been little incentive for provincial legislators to work towards uniformity." What about such bodies as the Investment Dealers Association of Canada and the Canadian Bar Association? Surely strong representations to the legislatures with clear statements of the potential benefits and accompanied by an offer of expert assistance should be worthwhile—particularly when one considers the great growth in stature achieved by the former body over the past 10 or 15 years.

Aside from the foregoing remarks, the book is essentially one for the would-be expert or specialist. An unavoidable weakness is, of course, that it was out of date before it left the press; the reader must supplement the published material with current information on amending legislation. However, this is

no reflection on the work of the author, for he has made it possible for an interested person to acquire, with a reasonable expenditure of time and effort, the knowledge necessary to assess the implications of amending legislation and appraise the desirability of reform. One hesitates to contemplate the formidable task of gaining such an understanding without access to this book.

Following graduation with first class honours in physics and chemistry from the University of Toronto, the author attended in turn the Harvard Business School and the Harvard Law School. From the former he received an MBA degree and from the latter an LL.B. with honours. During the preparation of the book he received assistance from a number of authorities both in the answering of questions and the reading of manuscripts. His principal advisor and critic was Professor Louis Loss of the Harvard Law School, author of a study of similar regulations in the United States.

J. C. Taylor,

Professor, U.W.O.

PHYSIOLOGY IN INDUSTRY

by Lucien Brouha, M.D., Pergamon Press, 1960, 145 pp.

Physiology in Industry is a fresh approach to the question, "How does modern society use its human capital?" This question does not lend itself to ready answer, for while a machine would never be used without knowledge of its characteristics, this attitude changes when the problem is the use of the human "machine" as a source of mechanical energy. In order accurately to define tasks, it is essential to determine the physiological energy expenditure associated with jobs. Relatively unknown factors such as the efficiency and power of muscles, heart, lungs, optimum rhythm of motion, fatigability, and speed of recovery during rest periods, while still ignored in industrial practice are the keys to the solution of the problem of what man can do safely.

Dr. Brouha's book is the result of extensive research in two large companies, one Canadian, one American. While some familiarity with medical terminology is useful, the book is still designed for the interested lay person, and the use of concise, non-technical summaries and a direct style enhances one's understanding of the findings. The author's forthright statement of ideas is both refreshing and appreciated. For example, on the first page of text the cornerstone concept is stated in such a fashion that no one can evade it: "In order to evaluate the total physiological expenditure one must consider physiological reactions both during work and during the recovery period. When mechanical work stops, physiological work continues above the resting rate until recovery is complete . . . a complete 'work cycle' includes the physiological cost of work plus the physiological cost of recovery."

There are three sections of the book: 1) the worker—a discussion of the factors influencing physiological aspects of muscular activity in terms of cardiovascular functions (heart rate and stroke volume) and oxygen supply at moderate temperatures; 2) the physical environment—its effects, especially heat stress, with different rates and amounts of work and the effect of clothing and protective equipment; 3) the job—physiological requirements, reducing fatigue, the selection, placement and supervision of workers.

One point of particular interest is Dr. Brouha's use of the heart rate as an accurate gauge of the stress posed by muscular activity. The many tests show the naiveness of classifying tasks on the basis of time and motion study alone, which is the current practice. The notion of a "time-motion work cycle," it is suggested, should be replaced with the concept of "physiological work cycle." An example of these views will illustrate their usefulness. Tending furnaces on one job involved heavy manual labor and exposure to high temperature. Rest periods were necessary. The question arises as to what the proper number and duration of such periods should be and what should be used as a basis of judgment? Management and worker opinion varied considerably. A comparative study of several rest systems showed that a system of alternating half hours of work and rest reduced heart rate some 30 beats per minute as compared to work with no rest periods, and that over the year production was maintained at the high winter level both in quality and quantity. Coupled with reductions in worker absenteeism and turnover, the reorganization of work was seen as well worth the effort.

This book is the sort of stiff but vital reading that the person sincerely concerned with a "fair day's work" will want to study.

—Craig Lundberg,

Assistant Professor, U.W.O.

Continued on next page

THE PEOPLE'S POWER

by Merrill Denison, McClelland and Stewart Limited, Toronto, 1960, $7.50, 295 pp.

The story of one of the great Canadian ventures into public ownership of public utilities is recalled in Merrill Denison's book *The People's Power*; in his book the author has traced the creation and development of the Ontario Hydro Electric Power Commission.

Ontario Hydro as it is now known was the result of the tremendous efforts of E. W. B. Snider and D. B. Detweiler, who were both children of Swiss immigrants. Switzerland had used low-cost hydro power to help develop their watchmaking industry. These men designed the imaginative system of municipal cooperation and ably demonstrated to all doubters (and there were many) the gains which could be obtained by public ownership of power.

In its early stages "Hydro" had many opponents including "big private interests" and the provincial Liberal leader in the early 1900's, Premier Ross. It also had some peculiar friends. Among these were the provincial Conservative party, the Canadian Manufacturer's Association, and the Toronto Board of Trade. These groups had been won over by the benefits of "Power at Cost", and also by the examples of benefits which such countries as Switzerland had gained by low cost hydro.

Author Denison tells how, under the Commission's first great leader, Sir Adam Beck, the commission put together a first-rate engineering team. He credits much of the success of the Hydro to the engineering ability and imagination of H. G. Acres and Fred Gaby; these men are also credited for much of the present technical excellence of Hydro.

While this book contains few if any clues on the successful management of a business, and in that regard is perhaps of little interest to businessmen, it does, however, show that when industry and various levels of government cooperate, the results can be mutually beneficial.

The major criticism which may be levelled at the author is his very strong and rather uncritical position for public ownership of utilities such as electricity. However, in this case it seems to have given him a stronger background for telling the history of "Hydro", which he has done and done well.

J. G. Preston,
Instructor, U.W.O.

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UNIVERSITIES AND BUSINESS

"There is a great function which awaits the American universities, and that is to civilize business: or better, to get businessmen to civilize themselves by using their power over the practical processes of life to civilize their sociological functions. It is not enough that they should amass fortunes in this way or that and then endow a college or a hospital . . . What I mean is, law has been civilized—that was done by the Greeks and the Romans, Justinian and that lot;—medicine has been taken out of magic; education has been getting rid of its humbug; and next it is time to teach business its sociological function; for if America is to be civilized, it must be done (at least for the present) by the business class, who are in possession of the power and the economic processes. I don't need to tell you that there is a good deal of sniffing on this, the Harvard College and graduate schools side of the Charles River, sniffing at the new Harvard School of Business Administration on the opposite bank. That strikes me as snobbish and unimaginative. If the American universities were up to their job they would be taking business in hand and teaching it ethics and professional standards."

—L. Price, ed., *The Dialogues of Alfred North Whitehead* (New York: The New American Library, 1956), pp. 56.57.

Ottawa Newsletter — continued

In support of the Etobicoke-style coin-box TV is the unanswerable argument that it is in no way and at no time a form of broadcasting; it is not covered by the Radio Act; and it therefore should not be subjected to regulation by the B.B.G. as broadcasting stations are.

The federal Radio Act defines "broadcasting" as "the wireless transmission of signals, pictures and sounds of all kinds by means of Hertzian waves intended to be received by the public."

Coin-box TV is "wired", not "wireless", and it does not use Hertzian waves. No community antenna system normally transmits wireless signals. The Radio Act would have to be amended to cover either system; any such amendment would convert the act from being a defender of human freedoms into a promoter of special business interests.

Coin-box TV is in fact more akin to the cinema than to television in technique. Your local cinema is not regulated by the B.B.G. so that it must show 55% of Canadian films, so why should your "cinema-in-your-home" be thus regulated? And if your home-cinema is to be thus regulated, will the B.B.G. likewise stipulate that your home movie projector may only be used to show 55% Canadian product? If so, what will happen to your own films taken on your holiday trip to Europe? Would you be forbidden to hire U.S.-made films to entertain your children's friends at their birthday party? Would this entail the invasion of your home by the R.C.M.P. or by a new B.B.G. secret police force, to ensure that you did not break such intolerable regulations? In fact, would this not be an insufferable interference with your human freedoms so recently emblazoned upon our statute book by Prime Minister John Diefenbaker?

It is easy to see that some broadcasters, both the C.B.C. and private stations, may not like the competition from this new scientific development. They may envy the potential golden market thus opened up, some 5,000,000 Canadian homes able and willing to pay up to $1 a night for some entertainment. But they have a weak case, and they appear to be aiming to achieve a dangerous precedent of unwarranted government interference with the private citizen using private propetry in his private home.

Canadian Law and the Businessman — cont.

a Committee of Adjustment which has power to grant relief in the case of minor variance from the stringencies of the Zoning By-Law.

Of particular interest to those engaged in business is the philosophy of the planner in respect to our economic system. Should the Planner either increase or decrease competition in a given area by controlling the use of the land in that area? Consider the following case. Someone applies for re-zoning to accommodate a Supermarket. All the Planner's requirements including topography, services, parking, and landscaping are met, but it is pointed out that in the area there are many small merchants who would be put out of business by such a Supermarket. Alternatively, and in many cases simultaneously, it is argued that the area is sufficiently serviced and the Supermarket would be unable to operate profitably. Such a problem generally splits a Planning Board down the middle. The Professional Planner feels he is quite competent to pass on the economic impact of the proposal and that it is his duty to do so. The actual members of the Planning Board are frequently not so sure that they should venture into this realm but are reluctant to go against their technical advisers. Faced with a split in its Planning Board, the Council is only too apt to be swayed by sentimental considerations.

A similar problem is the treatment of gasoline stations. Some cities have obtained private legislation to control the number of gasoline outlets in the area. This allows the Council arbitrarily to refuse a licence without giving reasons other than to say there are too many of them already. In reaching such a decision, the Council will probably weigh heavily on the advice of the Professional Planner. The Professional Planner appears to welcome the added power and so do many elected representatives from coast to coast. But, one might ask, why stop at gasoline stations? Why not let municipalities control the number of hardware shops and grocery stores and in fact their whole economy? Planning is both necessary and desirable, but perhaps the time has come to set some limits to this jurisdiction. If further encroachments on the freedom of the economy are distasteful to the businessman, he had better keep his eye closely on the Professional Planner.

THE SCIENTIST IN AMERICAN INDUSTRY

by Simon Marcson, Industrial Relations Section, Princeton University, 1960, 158 pp, $3.00.

One of the important problem areas in industry today is concerned with the management of professional staffs of engineers and scientists. The rapid increase in the use of scientists and other high-talent people has prompted investigation of organizational environments as they affect scientific personnel. Dr. Marcson, a sociologist, presents the first of a series of studies which probe the problems of the scientist in an industrial research laboratory, the impact of specialized training, aspirations, work conditions, the rather different nature of the scientist's work relations, and the "work" itself.

The author finds that the effective utilization of scientific talent does not depend on the exercise of "executive authority", for scientists do not easily accept the goals of the traditional business enterprise. The research laboratory can be likened to the university community, with scientists, like scholars, more interested in their profession than in the corporation, and hence oriented towards a system of "colleague authority."

The career goals of industrial research scientists vary from a dedication to scientific research to a desire for administration—either administration *per se,* administration as an avenue for financial or prestige rewards, or administration as a haven of non-scientific competition. Two general types of expectations result: those fulfilling notions of basic research, and those of personal satisfaction. Professor Marcson observes that there is a ceiling to the status of the scientist, with more rapid opportunities for status advancement in the administrative ladder.

Continued on next page

Compounding this is the emergence of informal, key scientific leaders who "constitute nodules of leadership." The question arises as to how career and influence factors supplement the decision-making system of the corporate management. Research administrators, themselves usually scientists, are faced with difficult problems. They must understand and speak two languages; they, as supervisors, must understand and accept the goals of the enterprise; and they, as scientists, must demonstrate their respect for the professional goals of their colleagues.

These are the sort of findings the author patiently puts forth. The strains attendant to the work and position of the research scientist are noted—goals, roles, the uncertainty of research. Suggestions are offered for the management of strain. Dr. Marcson looks at the scientist industry through a scientist's eyes. The systematic and sensitive product is a real contribution to the understanding of organizational behavior —an understanding presented in a very clear and comprehensive manner.

—Craig Lundberg,
Assistant Professor, U.W.O.

NEW FORCES IN AMERICAN BUSINESS

by Dexter M. Keezer and Associates, McGraw-Hill Book Company, Inc., New York 1959, 278 pp, $4.75.

In this book the authors address themselves to the question: "Has the American Economy got what it takes to sustain the remarkable growth and stability that it has achieved since World War II?"

In attempting to answer this question, the authors (who, except for one, are all members of the McGraw-Hill Publishing Company Department of Economics) have

Continued on next page

Books for Businessmen — cont.

used their "intricate and current knowledge of what is happening in American business" to choose the key indicators that they feel will influence the economy of the United States during the 1960's. The authors believe their special position midway between business and academic economists gives them a special ability to judge objectively economic indicators.

Three major areas of the economy that have been covered in this book are: (1) Business investment; (2) Government Policy; (3) Consumption.

Each is reviewed in the light of recent economic trends and, in a highly optimistic fashion, is used to build up a glowing picture of the U.S. economy in the 1960's. The authors do, however, make the qualifications that there will be no war, no major shift in American political policies, and that the economy will continue to evolve as in the past. Some skeptics might ask whether this does not assume away the problem.

Some of the more interesting observations which the authors make are that scientific research has now become an organized procedure coordinated with the planning and development of new products. They also outline what they feel will develop in the marketing field in the 60's.

This book is partially a summary of the many reports issued by McGraw-Hill and other organizations during the past several years. It also uses excerpts from speeches made by leading American economists during the past several years.

The book analyzes primarily the problems of the U.S. economy, but because of the similarity to the Canadian situation, businessmen in Canada will find it worthwhile as background for making their plans for the 60's.

John G. Preston
Instructor, U.W.O.

About Our Authors cont.

1958 and is currently a lecturer there in Accounting, Finance, and Investment Management. After obtaining his B.A. degree from Assumption in Windsor, Mr. Graham spent five years with the Bank of Montreal. A member of the Editorial Council for the Business Quarterly, he has contributed several previous articles. The latest was concerned with stock option plans for management.

R. C. McIvor, B.A., M.A., Ph.D., is Professor of Economics at McMaster University. He received his undergraduate degree at the University of Chicago. The author of the book "Canadian Monetary, Banking and Fiscal Development," Professor McIvor received a Canada Council Post Doctoral Fellowship for Research in Economics at Oxford, Cambridge and London in 1959.

Ronald S. Ritchie graduated in 1938 from the University of Western Ontario with an Honors B.A. in Political Economy. He has an M.A. in Economics from Queen's University. Before joining Imperial Oil in 1947, Mr. Ritchie spent five years in Ottawa with the Wartime Prices and Trade Board. In June 1958 he became Assistant General Manager of the Marketing Department of Imperial Oil and was appointed Manager of the Employee Relations Department in 1959. Mr. Ritchie is the author of the book "Nato—The Economics of an Alliance," and recently he was appointed Executive Director of the Glassco Royal Commission on the Organization of Government, Ottawa.

Our Readers Write cont.

We are glad to say that so far the Japanese cards have not been a major competitor, although some of our customers have threatened to import them. Making playing cards is not a little involved, and the established companies have a wealth of experience which exhibits itself in the product by way of quality, finish and other characteristics. Even our less discriminating customers will recognize these features.

Japan is not the only country that sells Canada playing cards. There is almost no country in Europe that does not produce them, and some from each find their way here. In 1959, according to Government Excise figures, there were more than 4,100,000 packs sold in Canada, of which 170,000 were imported, or more than 4%. The balance of the market was not ours in case you so suspect, inasmuch as another U.S. organization has a Canadian affiliate.

Of the quantity imported, 5,000 packs came from Japan—more than we care to see as it is only recently that manufacturing has been commenced in Japan. Of what we have examined the quality is poor compared to our own, and our most reasonable brand is much superior.

Imports from all countries are on the increase and will continue, I much fear, as the consumer price is a factor in which too often quality is overlooked. We excel in quality and service, and we continue to dwell on these attributes to our customers.

If you or any of your associates are card players, you will have an opportunity soon to examine and try our product. We are just in the process of developing a special edition

Continued on next page

Our Readers Write cont.

with the University crest depicted on the backs. Being a special edition they will not be cheap—but you'll be proud of them.

Very truly yours,
W. H. MacKay
President,
International Playing Card Co. Ltd.

To The Editor:

Your Fall 1960 issue just hit my desk this afternoon. The editorial page hit my consciousness about 4:05 p.m., with sufficient impact that I am getting this letter away today.

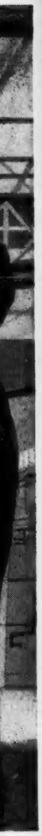
In our composing room at this moment is an article for our December issue "AIR POLLUTION—The reality and the challenge." The penultimate paragraph reads thus:

> "Sufficient data now exists and is available to everyone to justify vigorous action at all levels. The nicest interpretation of professional ethics places major responsibility for combating a public menace of this type squarely on medical practitioners."

The ultimate paragraph of your editorial asks for leadership. I am very sorry that you did not mention another C.M.A. besides the Canadian Manufacturers Association: the Canadian Medical Association. But we're happy that your prestigious editorial voice is being added to what sooner or later must rise to a clamorous crescendo, if we are to save our heritage and our society and our future generations.

Cordially yours,

Canadian Doctor,
A. P. Darcel,
Project Editor.



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